

**AN ANALYSIS OF MARKET AND
FINANCIAL FEASIBILITY OF
HOTEL/CONFERENCE CENTER USE**

**18.7-ACRE CHARLESTON EAST SITE
MOUNTAIN VIEW, CALIFORNIA**

**Prepared by:
Sedway Group and
Scott Hospitality Consultants**

**Prepared for:
CITY OF MOUNTAIN VIEW**

MARCH 2000

March 3, 2000

Mr. Michael Percy
Principal Planner
Community Development Department
City of Mountain View
500 Castro Street
Mountain View, CA 94039

Dear Michael:

Enclosed is a report summarizing Sedway Group's and Scott Hospitality Consultants' findings regarding the market and financial feasibility of hotel/conference center use of the 18.7-acre Charleston East site. The report also considers cultural and educational uses of the site. You should note that most of the data and analyses were gathered and made in late-1999 through January of 2000. The City's comments are being incorporated in this final report dated March 2000.

We look forward to attending public meetings to respond to questions and/or present our findings. Please contact us as soon as the meeting dates are established.

Sincerely,

Terry R. Margerum
Principal

Amy L. Herman
Principal

Clifford J. Dowd
Manager

TRM:ALH:CJD/cjd
Enclosure

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I. EXECUTIVE SUMMARY

BACKGROUND

Sedway Group and Scott Hospitality Consultants were retained by the City of Mountain View to assess the market and financial feasibility of a hotel/conference center concept on an 18.7-acre, City-owned site at the intersection of Shoreline Boulevard and Charleston Road. The site is commonly known as Charleston East, and is currently zoned for cultural and educational uses. The City commissioned this analysis prior to considering a potential amendment to the North Bayshore Precise Plan that would allow hotel and conference center use on a portion of the site.

In addition, this analysis also includes identification of potential types of cultural and educational uses that would be compatible with a hotel and conference center.

SCOPE AND METHODOLOGY

The work scope included the following major tasks:

- \$ Site and neighborhood analysis;
- \$ Analysis of the compatibility of a potential fire station with hotel and cultural/educational uses of the site;
- \$ Comparison of the Charleston East site with another potential hotel site in Mountain View, known as the Americana (or former Emporium) site;
- \$ Hotel market supply and demand analysis (including interviews with major businesses in Mountain View);
- \$ Conference center market analysis (including interviews with key hotel/conference center developers and operators);
- \$ Identification of potential educational and cultural uses suitable for sharing the site with a hotel/conference center project (including interviews with educational/cultural institution representatives);
- \$ Determination of a prototype hotel/conference center concept for the site;
- \$ Order-of-magnitude financial feasibility analysis of the hotel/conference center prototype on Charleston East to indicate if a City subsidy would be likely to be required; and
- \$ Summarization of key findings in report form.

SUMMARY OF FINDINGS AND CONCLUSIONS

Market Area Determination

Sedway Group and Scott Hospitality Consultants determined that the primary market area for a potential hotel at Charleston East would be the Santa Clara County cities of Cupertino, Los Altos, Mountain View, Palo Alto, and Sunnyvale. Hotels that would be primary competitors with a project at Charleston East are generally located within this area as well as portions of southern San Mateo County, including Menlo Park and Redwood City.

Site Conclusions

Charleston East Site. The Charleston East site (formerly known as Parking Lots A and B for Shoreline Amphitheater) would be excellent for hotel/conference center development due to its location proximate to 7.8 million square feet of occupied and under-construction first-class office space, Shoreline Park, Shoreline Golf Links (a Robert Trent Jones, Jr.-designed course), and other major uses and amenities in the North Bayshore Area.¹ Access is also excellent due to the proximity of on- and off-ramps to and from Highway 101.² The proximity of Shoreline Amphitheater, which hosts about 40 to 45 concerts per year, is not viewed as significantly detrimental to hotel/conference center development.

Comparison to Americana Site. As part of the analysis, the City asked Sedway Group and Scott Hospitality Consultants to compare the attractiveness of hotel/conference center development on the Charleston East site with the attractiveness of such development on a 9.14-acre, former Emporium location at Highway 85 and El Camino Real, known as the Americana site. The Americana Center Precise Plan, which provides zoning for this site, was recently amended to allow hotel development as a principally permitted use. This site is not owned by the City.

A February 1999 report prepared by Sedway Group for the City of Mountain View analyzed the potential market for high-end hotel, office, and retail uses of the Americana site. The Americana site was determined to be suitable for a high-end hotel (with limited meeting space) and Class-A office development in that report. Comparing these two excellent hotel sites, we found that the Charleston East site would be suitable for a larger, somewhat higher quality hotel with significantly more meeting space than the Americana site for the following reasons:

¹The North Bayshore Area includes the area north of Highway 101, between San Antonio Road to the west and NASA-Ames Research Center to the east.

²It should be noted, however, that Sedway Group's Aexcellent® rating only considers proximity to major arterials; another city-commissioned study by environmental consultants Jones & Stokes analyzes the site in terms of traffic volumes and peak usage. That study is entitled, AInitial Study for the North Bayshore Precise Plan Amendments,® and is dated January 2000.

- \$ Charleston East is closer to the primary generators of rooms demand (first class office space) than the Americana site.
- \$ Access to the Charleston East site via Highway 101 is simpler and more direct from established office nodes than to the Americana site.
- \$ The office development, open space, Shoreline Park, Shoreline Golf Links, and other amenities and uses surrounding Charleston East would have greater synergy with hotel/conference center development than land uses in the vicinity of the Americana site (primarily strip retail and residential development); and
- \$ The larger size of Charleston East affords the opportunity to create a more cohesive environment for a potential hotel/conference center project and any shared use of the site.

Because of the site location, access, and neighborhood characteristics, a hotel developed on Charleston East could likely support higher room rates than a hotel developed on the Americana site. A hotel developed on the Americana site would appeal primarily to the individual business traveler, with a smaller group meetings segment. Because a larger hotel with more meeting space could be developed on Charleston East, the market for such a hotel would include a larger share of corporate conference and meeting business, as well as the individual business traveler. So, while each hotel would have its own niche in the marketplace, there would be some overlap. It is not anticipated that development of a hotel on one of the sites would necessarily preclude the development of a hotel on the other site from a market standpoint. However, it is unlikely that two relatively high-end hotel concepts would be developed concurrently, or nearly so. Development of a hotel on one of the sites could likely mean that hotel development on the other site would not occur until several years afterwards, giving the market time to adjust and respond to the introduction of the first hotel.

Market Area Lodging/Conference Space Supply

Existing Facilities. There are 14 first-class, full-service hotels in the market area that would compete to a greater or lesser degree with a new hotel/conference center developed on the Charleston East site in Mountain View.³ These 14 hotels have approximately 4,000 guest rooms and 160,000 square feet of meeting space. The hotels are categorized as follows:

- \$ **Highest Quality:** Hotel Sofitel, Stanford Park Hotel, Garden Court Hotel, Crowne Plaza Cabana;
- \$ **Convention/Conference Hotels:** Marriott Hotel, Westin Hotel; and
- \$ **Medium Quality Hotels:** Dinah's Garden Hotel, Summerfield Suites Hotel, Biltmore Hotel and Suites, Embassy Suites, Quality Suites, Sunnyvale Hilton, Sheraton Palo Alto, and the Hyatt Richeys.

³The recently completed Hilton Garden Inn in Mountain View would not be considered a primary competitor due to its more mid-market appeal and lack of significant meeting space.

Confirmed Additions to the Competitive Supply. The following planned or recently completed additions would be competitive to a greater or lesser degree with a high-quality hotel/conference center at Charleston East:

- \$ an 86-room renovation at the Crowne Plaza Cabana completing the hotel's full renovation of its 194 rooms in mid 1999;
- \$ a 100-room addition to the Hotel Sofitel completed in late 1999;
- \$ a new 280-room compact full-service Hilton Hotel adjacent to the Santa Clara Convention Center to be completed in September 2000; and
- \$ a 184-room Westin Hotel in Palo Alto to be completed in early 2000.

Because the City is focused on higher-end hotel/conference center development, a number of existing and proposed medium quality hotels with limited services and/or limited amounts of meeting facilities would not be considered primary competitors with a higher end hotel on Charleston East (e.g., the Courtyard by Marriott, Residence Inn, and Hilton Garden Inn concepts). Additionally, there are several rumored projects at the early conceptual stages of development. These developments are highlighted later in the report, but are generally considered to be too speculative and preliminary to warrant significant discussion.

Market Area Lodging/Conference Space Demand

Aggregate Performance Data. Of the 14 hotels considered most competitive, 10 participate in an annual Smith Travel Research survey of hotel occupancy, room rates, and other performance indicators. These performance indicators are the primary gauges for estimating the demand for lodging and conference space. Smith Travel Research provides the results of the survey in the aggregate so as not to reveal the performance of any single property. The 10 hotels surveyed are among the larger facilities and therefore represent about 85 percent of the total rooms among the 14 competitive hotels.

The properties surveyed finished 1998 with an aggregate occupancy of 75.8 percent and an average room rate of \$150.30. Through August of 1999, the latest available data, these properties were achieving aggregate occupancy and average room rate levels of 77.0 percent and \$156.53, respectively. Because the four properties that did not participate in the survey are widely known to have among the strongest occupancy and room rates of the 14 competitive hotels, the operating results from the 10 participating hotels are below what would be expected if the remaining four hotels had participated in the survey.

Overall, the data, analysis, and interviews with local hotel operators suggest that there is a significant amount of turned away business in the market area during the week due to currently high occupancies, especially on Tuesdays and Wednesdays. This turned away business could be captured by high quality new hotels. It is estimated that this turned away business represents tens of thousands of room nights each year. Guests who are turned away from high quality local hotels must either stay at lower quality projects in the area or travel just outside the market area to find a facility of similar quality that does have availability.

Local Business Interviews. Part of the methodology for determining the demand for a new hotel/conference center at the Charleston East site included a survey of the local businesses and institutions to learn their interest in the project and what their likely utilization or patronage of the facility would be. Accordingly, contacts were made with 24 different companies and institutions ranging in size from SGI (3,300 employees) to Lloyd-Ritter Consulting (100+ employees). Generally speaking, most were favorably disposed to using the hotel/conference center assuming their quality level expectations were met and the facility was competitively priced. Anecdotal feedback is considered in greater detail in the body of the report.

Lodging Demand Conclusions. Given a review of the economic and demographic indicators, the historical growth in lodging demand, interviews with key businesses in Mountain View and the confirmed additions to supply, rooms demand is estimated to grow at a 4.0+ percent per annum rate for the next eight years. New hotel development appears feasible in the market area given expected growth in demand and the aging and necessary replacement of some of the existing hotel stock. The Charleston East site is therefore an excellent candidate for hotel development from a long-term market perspective.

Developer Interviews Regarding Hotel/Conference Center Development of Charleston East

Developer interviews undertaken to gauge the level of developer interest in the Charleston East site and determine the size and type of facility considered most appropriate for the site. All of the interviewed developers and operators were already familiar with both the local market and the Charleston East site at the time of the interview. They were impressed with the potential opportunities afforded by the site and excited about the potential of being involved in any process established to offer the site to developers.

The operators interviewed were generally in consensus on the development parameters they would establish for the site. The input of developers was considered in the formulation of a project Aprototype@ for Charleston East. This prototype is described in the next section.

Financial Feasibility Assessment for Hotel/Conference Center Prototype

Premise of Financial Feasibility Analysis. Since strong market interest does not guarantee that a project will be feasible from a financial standpoint, an Aorder-of-magnitude@ financial feasibility analysis of a prototypical project on the Charleston East site was developed. This analysis considers potential income of the prototype project, as defined by market research, as well as associated development costs.

A major purpose in performing the order-of-magnitude analysis was to consider whether the project would be likely to need any form of City subsidy to be feasible. The issue of subsidy and the results of the analysis are discussed following a description of the prototype project. In considering financial feasibility, it should be noted that both the hotel rooms and the conference space are integral to the project's economics. For instance, a large amount of meeting space with significantly fewer hotel rooms than the number suggested below is very unlikely to be financially feasible without subsidy.

Prototype Development Parameters. A development sized in the middle range of that indicated by developers and our experience was modeled in the financial analysis as a prototype:

Land Area:	12.0 acres
Number of Guest Rooms:	300
Building Square Footage:	265,000 square feet, including 35,000 square feet of conference space.
Parking Spaces:	450 surface spaces (1.5 spaces per room) ⁴
Development Cost (1999 dollars):	Approximately \$60 million, excluding land costs. Equivalent of about \$200,000 per room including costs for the conference center portion of the development, or \$175,000 per room excluding the costs for the conference center

Treatment of Land Costs. It was assumed in the analysis that Mountain View would offer a long-term ground lease to the developer at market terms. The terms incorporated in our financial model included an annual return of 8.0 percent on land value in the form of a ground lease payment to the City of Mountain View. Cumulative adjustments to ground rent were assumed to be tied to the Consumer Price Index and occur once every five years. Land value was estimated in the range of the mid-\$30's per square foot, a figure which is similar to but somewhat lower than the land value that could be expected if the site were leased for office development. The land value was estimated through a residual analysis and by reviewing data on recent comparable land sales in the market area.

Market Inputs. Given the likely growth in lodging demand, the expected future changes in lodging supply and the proposed project description, it was estimated that a 300-room hotel/conference center could achieve the following occupancy and room rates for its first five full years of operation, assuming its first full year, at the earliest, would begin in 2003. A relatively conservative approach was taken in the projection of rates so as not to overstate potential financial performance of the project.

Year	Prototype Room Occupancy (%)	Prototype Average Room Rate
2003	65	\$178
2004	73	\$196
2005*	79	\$228
2006	79	\$235
2007	79	\$242
*Stabilized occupancy year.		

⁴The number of parking spaces is based on the requirements of the operators interviewed, as well as our reconciliation of the City's requirements for hotel and conference space uses.

Results of Financial Feasibility Analysis. Using the above development parameters and market inputs to construct a financial model, Sedway Group concludes that a project similar to the development prototype is unlikely to require financial assistance from the City in order to be feasible. Based on several conventional measures of financial return (returns on cost, internal rate of return, etc.), a project similar to the prototype appears quite feasible, generally speaking.

That said, it must be acknowledged that even the most financially promising projects can experience difficulty in obtaining financing when capital markets are tight. Furthermore, regardless of the state of the capital markets, it is always more difficult to finance a project subject to a ground lease than one in which the developer or user owns the land.

During the past several years, it is our opinion that a hotel project similar to the prototype at this location would have been quickly financed given the right development team. In fact, the number of recently completed projects and projects currently under construction in the market area supports this premise. Presently, however, capital for hotel projects is much more difficult to find, even for promising projects. This situation could again change by the time a developer of the Charleston East site were actually in the market for financing. If capital market conditions have not improved, and the City wished to expedite the project at some point in the future, the City may wish to consider certain forms of project self-financing or financial assistance, meaning that the source of funds for the assistance would be the project itself. In effect, these forms of assistance can reduce a lender's risk enough on the margin to improve the project's attractiveness for financing. Examples of such assistance include:

- public financing of certain public parts (e.g. parking) of the project using certificates of participation (COPS) secured by the ground lease on the property, or other mechanisms;
- temporarily rebating a portion of the substantial transient occupancy taxes (TOT) generated by the project (see estimated annual TOT below); or
- temporarily discounting or deferring ground rent.

This list is exemplary, not exhaustive. There are other alternative means of providing assistance if the City so desired. Sedway does not anticipate any situation where a project of this sort at this site would require subsidy by the City, except out of revenues generated by the project itself.

In sum, the basic project economics look very positive, and assuming a strong development team, a failure to secure financing for such a project at the Charleston East site would probably have more to do with general capital market conditions than the project itself.

Transient Occupancy Tax Revenues of Prototype Project

In addition to revenues from ground lease payments and property taxes, a hotel development at Charleston East would generate transient occupancy tax revenues for the City. In Mountain View, the transient occupancy tax is 10 percent added to the room rate that is paid by the hotel guest.

Based upon the financial projections presented earlier, transient occupancy taxes for the first five years of operations are presented below.

Year	Prototype Projected Transient Occupancy Tax
2003	\$1.27 million
2004	\$1.57 million
2005	\$1.97 million
2006	\$2.03 million
2007	\$2.09 million

In the fiscal year 1998/99, transient occupancy tax collections for the entire City of Mountain View were approximately \$2.6 million. In this context, a hotel at Charleston East would result in a substantial increase in transient occupancy tax revenues for the City.

Uses for Land Not Required by Hotel/Conference Center Prototype

Estimated Remaining Land Area. Based upon our findings, it appears that a hotel/conference center development of the quality and scale desired by the City of Mountain View would only require 10 to 14 acres of the 18.7-acre Charleston East site, leaving 4.7 to 8.7 acres for other development, such as cultural and educational uses.

Potential User Types and Definitions. It was assumed that any remaining site area would be used for a cultural or educational use, given that the entire site is currently earmarked for such uses. Hotel operators stated that support or entertainment retail uses would also be appropriate if such uses would be allowed on the residual land area. Some developers might also be interested in building a second hotel on the site appealing to a more mid-market niche.

The City of Mountain View has also expressed interest in locating a new fire station on a portion of the residual land area. However, potential hotel operators strongly discouraged this shared use of the site. Their perception was that the presence of sirens and emergency vehicles in the immediate area would significantly detract from the high-quality environment necessary for a first-class hotel.

For the purposes of this study, an educational use is defined as a school (e.g., private primary or secondary school, preschool, adult education, etc.), while a cultural use is defined as a museum, gallery, interactive exhibit, performing arts space, library, archive, arts and crafts facility, or other similar use. Of course, many potential cultural uses could have educational components without being considered a school.

Potential User Conclusions. Within the categories of educational and cultural uses defined above, a representative sample of potential users was interviewed to gauge their level of interest in the residual site area. The findings from the interviews and our experience in other projects suggested the following:

\$ **An adult education use**, such as a satellite facility of a major institution, would be among the most compatible uses for the site. This type of user would likely be interested in a minimum of about 6.0 acres of land for a facility of 50,000± square feet with surface parking. Some users may also be interested in the entire 18.7-acre site. Adult education institutions frequently have established capital programs, bonding capacity, and other significant resources and experience to develop new facilities. However, there are a relatively small number of such institutions. Two institutions among those interviewed, UC Santa Cruz Extension and Foothill-De Anza Community College expressed interest in the site. An adult education facility would afford opportunities for cross-utilization of hotel/conference center facilities, providing perhaps the greatest synergy among all potential uses for the residual site area.

\$ **A private primary school** (grades kindergarten through sixth grade) would be a compatible use of the residual area of the site from the perspective of both a hotel operator and school administrator. The residual area would likely be too small for a facility targeting grades 7 and above, which would be more likely to require all or a large portion of the 18.7-acre site area. However, sensitive site planning would be necessary to avoid safety, security, traffic, playground noise, and other conflicts between a hotel/conference center and primary school. One such conflict is usage of hazardous chemicals by nearby businesses.

The minimum site area desirable to a typical private primary school for new facility development would likely be 6.0 acres; however, many smaller schools exist that would be interested in a smaller site area. Site area of 6.0 to 8.7 acres would allow a primary school to accommodate 400 to 600 students. One local private elementary school with an affiliated childcare program, the Early Learning Institute, expressed interest in 2 to 3 acres for a facility to accommodate 150 daycare children and 200 elementary school students. The Early Learning Institute, like many similar users, would also be interested in using nearby public park space on a regular basis. The organization has capital reserves to fund new development and has experience developing new facilities in the Bay Area. The Early Learning Institute currently occupies a temporary space in Palo Alto.

\$ **A cultural use** presents great flexibility in being tailored to the City's requirements because of the wide variation in potential concepts. It is anticipated that the size of a facility given the site area available could be 60,000± square feet, with maximum annual attendance of 100,000 to 250,000 people. The ultimate concept of the facility, admission prices, and other factors could be selected in such a way as to manipulate the facility size and annual attendance to levels deemed acceptable by the City. The residual site size of 4.7 to 8.7 acres is favorable, though somewhat large, for many cultural users. Therefore, depending on the use, it may be necessary to include more than one organization in a new cultural facility on the residual site area.

While a cultural use is desirable due to its compatibility with hotel use and the variety of potential concepts, this use would be likely to require land in-kind and possibly additional subsidy and ongoing involvement and support from the City to bring development of the project to fruition. Locally, Palo Alto and San Jose have developed the greatest concentration of cultural uses in Silicon Valley, and both cities have made significant investments in developing this cultural infrastructure. During extensive interviews, no established cultural organizations in need of space were identified that have capital

programs in place, or are making definitive plans find a site and start such a program for a new facility. Development of new cultural facilities typically requires lengthy fund-raising drives.

RECOMMENDED NEXT STEPS

Make Decisions Regarding Precise Plan Amendments

The findings suggest that a 250,000- to 285,000-square-foot hotel/conference center is an appropriate use for 10 to 14 acres of the Charleston East Site, with $\pm 60,000$ square feet on the remaining 4.7 to 8.7 acres for cultural/educational uses. It must be decided if the North Bayshore Precise Plan should be amended to allow such a development program. This $\pm 345,000$ -square-foot program represents an increase in the allowable square footage on the site, which is currently 220,000 square feet.

Establish Priority Criteria for Cultural/Educational Use

Because the cultural/educational category presents a broad spectrum of potential uses, the City should decide if particular types of cultural/educational uses within the category are to be targeted or excluded.

Issue Request for Qualifications (RFQ) to Potential Developers/Users

Upon establishing minimum criteria for potential users, the City should publicly issue an RFQ. Potential users and developers with appropriate experience, financial capacity, and the willingness to work within the guidelines of the revised North Bayshore Precise Plan would be encouraged to respond.

Evaluate Qualifications of Respondents

Respondents to the RFQ should be evaluated based upon a pre-determined set of criteria.

Invite Select Users/Developers/Teams to Respond to a Request for Proposals (RFP)

The most qualified respondents to the RFQ should be invited to submit a proposal to develop the site. The City may encourage a team response from a hotel/conference center developer in association with a cultural/educational user, or may allow individual responses. Selection of a team would allow for a more cohesive site plan and possible economies of scale. However, a team approach could result in one member of the team being delayed by the other due to unequal abilities to raise funds, the timing of decision-making within each organization, and potential issues or conflicts that arise between the two organizations.

Evaluate and Select User/Developer/Team for Negotiations

Ultimately, the user or team of users with the strongest proposal should be invited to negotiate with the City for use of the site. The City may also reserve the right to decline all proposals if none are deemed acceptable. Criteria for selection should balance the appropriateness of the development concept, ability of the team to follow through, and the strength of the financial terms. Depending on the condition of the real estate market and results of the negotiations, the City may wish to consider offering some form of financial assistance (e.g., a discount on the early years of ground rent) in order to facilitate the timely development of a project.

II. SITE INFORMATION

SITE DESCRIPTION

The subject of this report is a site bounded by Shoreline Boulevard to the east, Charleston Road to the south, and Amphitheater Parkway to the north in the North Bayshore area of Mountain View, California, which is located in Santa Clara County.⁵ The site is vacant and has been most recently used for overflow parking from Shoreline Amphitheater (ALots A and B@), which is located directly north of the site across Amphitheater Parkway. Exhibit 1 is an area map showing the site location in context and Exhibit 2 shows a parcel map of the site, which is commonly known as ACharleston East.@

HISTORY

Physical Characteristics of Site

The Charleston East site totals 18.7 acres with flat topography and frontage along both Shoreline Boulevard and Charleston Road. Excellent access to the site from northbound and southbound exits off Highway 101 is available at the Shoreline Boulevard Exit and the Rengstorff Avenue Exit. Immediately east and adjacent to Charleston East is the five-acre Charleston Park.

Neighborhood Characteristics and North Bayshore Precise Plan

Within the North Bayshore area are about 7.8 million square feet of office/R&D development. This total is either already fully occupied with tenants or at some point in the development process. Most prominent and proximate to the Charleston East site are the new office complexes of SGI (formerly Silicon Graphics) and Alza Corporation. Other high profile area tenants include Sun Microsystems, Hewlett-Packard, Intuit, and Microsoft.

Shoreline Park, with over 700 total acres, is also proximate to the Charleston East site. This park includes Shoreline Lake; a Robert Trent Jones, Jr.-designed public golf course and club; Michael's Restaurant and banquet facility; nature walking areas; and tidal marsh lands along the San Francisco Bay.

The existing North Bayshore Precise Plan applicable to Charleston East currently allows cultural/educational facilities of up to four stories to be built on the site. In addition, the total allowable building floor area is 220,000 square feet with 70-foot setbacks from Charleston Road and 50-foot setbacks from Shoreline Boulevard.

⁵The North Bayshore Area includes the area north of Highway 101, between San Antonio Road to the west and NASA-Ames Research Center to the east.

EXHIBIT 1
MOUNTAIN VIEW AREA MAP

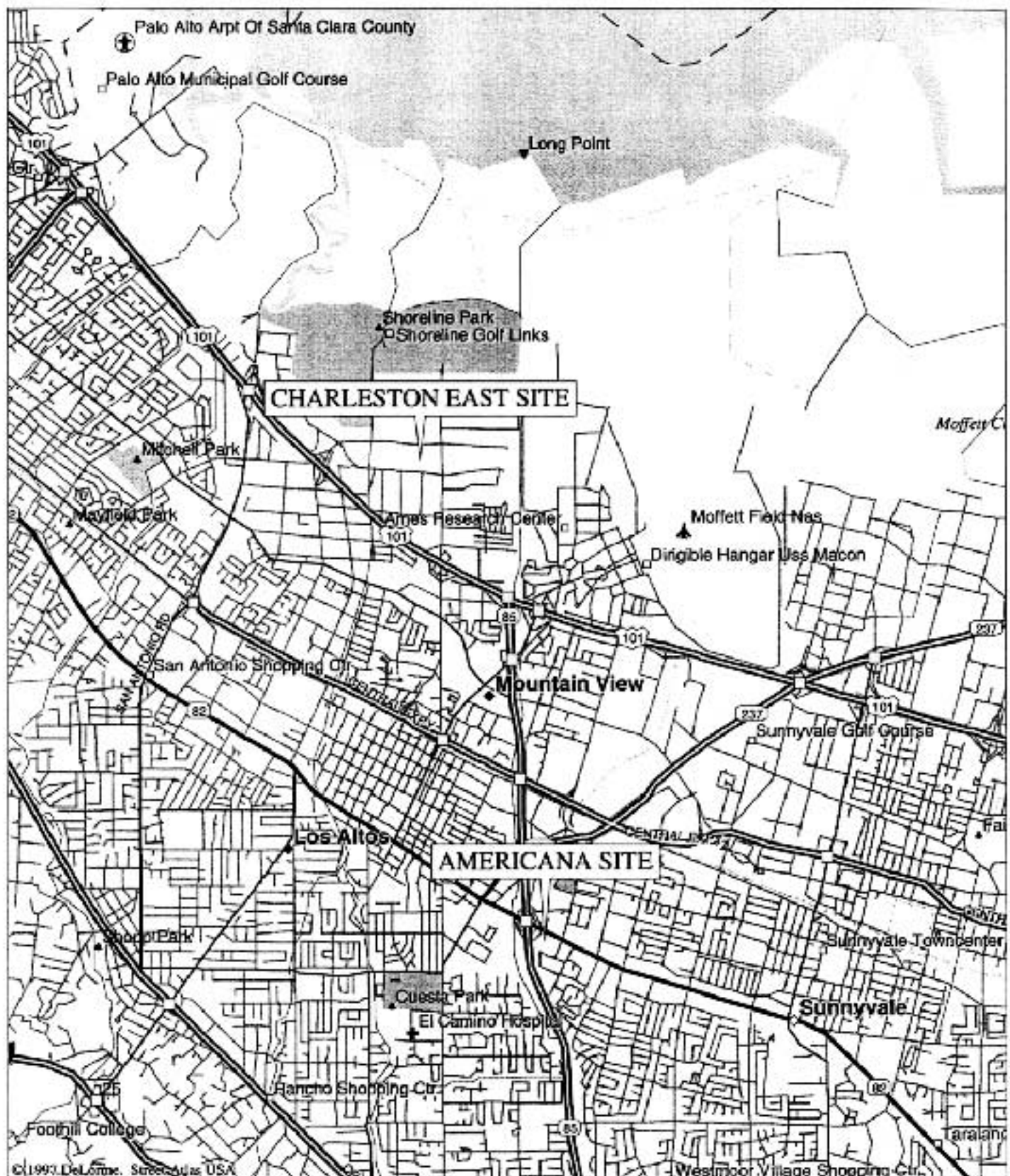
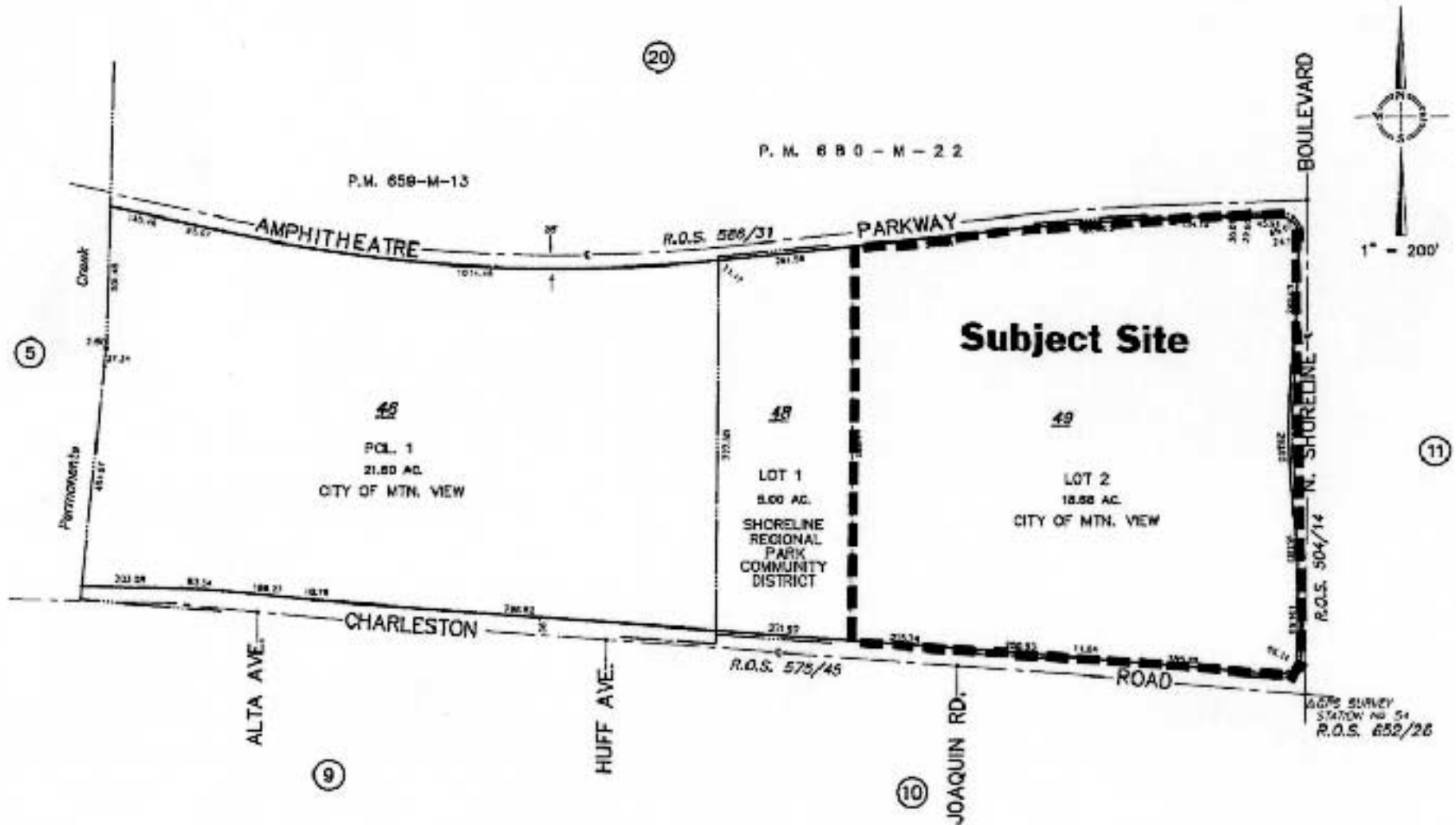


EXHIBIT 2
CHARLESTON EAST PARCEL MAP

OFFICE OF COUNTY ASSESSOR — SANTA CLARA COUNTY, CALIFORNIA

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CHARLESTON EAST SITE ANALYSIS

For a hotel/conference center to operate successfully, it must be well-located within a particular market area. There are four major criteria important in the analysis of a potential hotel site:

- \$ ***Proximity to Demand Generators*** B The majority of hotel/conference customer activity in the Mountain View area is individual business travelers and corporate/association groups. Charleston East has excellent proximity to this demand base.
- \$ ***Accessibility*** B Access to the Charleston East site is excellent from Highway 101. However, Sedway Group only considered proximity to major arterials as an evaluation criterion. The City's environmental consultants, Jones & Stokes evaluated accessibility in terms of traffic volumes and peak usage in their January 2000 report, A Initial Study for the North Bayshore Precise Plan Amendments.@
- \$ ***Visibility*** B Visibility from a major highway is often an extremely important criterion for hotel developers in their site selection. However, because potential customers in the Mountain View area are predominantly business-oriented travelers familiar with the region, lack of visibility from Highway 101 is not a major liability for the Charleston East site.
- \$ ***Surrounding Land Uses and Site Aesthetics*** B The land uses surrounding Charleston East are ideal for a hotel/conference center. The high-end offices in the area will attract business and group customers and Shoreline Park, Shoreline Golf Links, and other area amenities will be appealing to both business and leisure travelers.

COMPARISON TO AMERICANA SITE

As part of the analysis, the City asked Sedway Group and Scott Hospitality Consultants to compare the market for hotel/conference center development on the Charleston East site with the market applicable to a 9.14-acre, former Emporium site at Highway 85 and El Camino Real, known as the Americana site (see Exhibit 1 for location map). The Americana site, which is not owned by the City, is the subject of potential amendments to the Americana Center Precise Plan. A February 1999 report by Sedway Group compared the potential market for high-end hotel, office, and retail uses of the Americana site.

The Americana site was determined to be desirable for a high-end hotel (with limited meeting space) and Class-A office development in the February 1999 report. Comparing both of these excellent hotel sites, we found that the Charleston East site is suitable for a larger, somewhat higher quality hotel with a more significant level of meeting space for the following reasons:

- \$ Charleston East is closer to the primary generators of rooms demand (first class office space) than the Americana site.

- \$ Access to the Charleston East site via Highway 101 is simpler and more direct from established office nodes than to the Americana site.
- \$ The office development, open space, Shoreline Park, Shoreline Golf Links, and other amenities and uses surrounding the Charleston East site have greater synergy with hotel/conference center development than land uses in the vicinity of the Americana site (primarily strip retail and residential development); and
- \$ The larger size of Charleston East affords the opportunity to create a larger-scale, more cohesive environment for a potential hotel project and any shared use of the site.

Because of the site location, access, and neighborhood characteristics, a hotel developed on Charleston East could likely support higher room rates than a hotel developed on the Americana site.

A hotel developed on the Americana site would appeal primarily to the individual business traveler, with a smaller group meetings segment. Because a larger hotel with more meeting space could be developed on Charleston East, the market for such a hotel would include a strong share of corporate conference and meeting business, as well as the individual business traveler. So, while each hotel would have a unique niche in the marketplace, there would be some overlap. It is not anticipated that development of a hotel on one of the sites would necessarily preclude the development of a hotel on the other site from a market standpoint. However, it is unlikely that two high-end hotel concepts would be developed within a similar time frame. Development of a hotel on one of the sites could therefore mean that hotel development on the remaining site would not occur until several years afterwards, giving the market time to adjust to and respond to the introduction of the first hotel.

III. ECONOMIC AND DEMOGRAPHIC TRENDS

This section summarizes market area economic and demographic trends considered to be key indicators of the demand for hotel/conference center development. For hotel/conference center development, the City of Mountain View's primary market area was considered to include the Santa Clara County cities of Cupertino, Los Altos, Mountain View, Palo Alto, and Sunnyvale. The highest quality hotels located in the southern San Mateo County cities of Redwood City and Menlo Park would also be competitive. The information presented in Exhibit 3 and discussed below includes population, households, income, employment, transient occupancy tax collections for the primary market area, and passenger counts at San Francisco International Airport and San Jose International Airport.

POPULATION AND HOUSEHOLDS

The City of Mountain View can expect nominal population growth of about 1,900 individuals between 2000 and 2005, according to ABAG projections (see Exhibit 3). These projections indicate a 2005 population of 79,900 for Mountain View. During this same period, there will be an estimated increase of 8,900 individuals added to the market area, bringing the total population to 389,300 in 2005. The Mountain View market area is projected to have 149,190 households in 2005. A recently released December 1999 ABAG report indicates that Santa Clara County as a whole will gain more new residents than any other Bay Area county by 2020.

INCOME

As indicated in the ABAG data, households in the Mountain View market area are quite affluent. While Mountain View's mean household income is the lowest among the cities in the market area, this is at least in part due to the City's smaller average household size which results in a relatively high per capita income. Overall, incomes in the area are high, which suggests a population base of residents and workers in industries that are capable of supporting high-end hotel development.

EMPLOYMENT

The Mountain View market area has one of the strongest employment bases in the San Francisco Bay Area. Overall, the area is projected to have 351,020 jobs by 2000. Sunnyvale and Palo Alto have the largest employment bases in the area. These cities are projected to have 36 and 28 percent of total market area jobs, respectively, by 2000. The City of Mountain View is projected to account for over 20 percent of the total jobs in 2000, or approximately 71,440. From 2000 to 2005, the employment base in the market area is projected to grow by 10,990 jobs, of which 2,830 are projected in the City of Mountain View. From a countywide perspective, ABAG's December projections indicate more jobs will be created in Santa Clara

**EXHIBIT 3
COMPARATIVE DEMOGRAPHICS
MOUNTAIN VIEW AREA
1990-2010**

	1990	1995	2000	2005	2010
<u>Population</u>					
Mountain View	69,197	73,300	78,000	79,900	81,200
Sunnyvale	118,068	125,800	136,000	141,000	144,000
Los Altos	29,438	30,300	32,100	32,500	32,300
Palo Alto	75,305	77,300	80,000	80,500	80,400
Cupertino	47,447	50,500	54,300	55,400	56,100
Total	339,455	357,200	380,400	389,300	394,000
Market annual growth ¹	N/A	1.0%	1.3%	0.5%	0.2%
Mountain View annual growth ¹	N/A	1.2%	1.3%	0.5%	0.3%
<u>Households</u>					
Mountain View	30,455	31,040	31,750	32,800	33,930
Sunnyvale	48,638	50,710	52,750	54,980	57,240
Los Altos	10,982	11,070	11,390	11,640	11,770
Palo Alto	28,973	29,280	29,690	30,120	30,500
Cupertino	17,992	18,470	19,100	19,650	20,030
Market Area	137,040	140,570	144,680	149,190	153,470
Market annual growth ¹	N/A	0.5%	0.6%	0.6%	0.6%
Mountain View annual growth ¹	N/A	0.4%	0.5%	0.7%	0.7%
<u>Mean Household Income</u>					
Mountain View	\$60,618	\$64,100	\$73,700	\$74,800	\$79,600
Sunnyvale	64,813	66,300	76,600	83,600	87,900
Los Altos	122,204	137,600	160,200	181,900	195,900
Palo Alto	83,522	90,000	103,700	116,300	129,500
Cupertino	89,142	97,200	111,800	118,500	128,100
Market Area	\$84,060	\$91,040	\$105,200	\$115,020	\$124,200
Market annual growth ¹	N/A	1.6%	2.9%	1.8%	1.5%
Mountain View annual growth ¹	N/A	1.1%	2.8%	0.3%	1.3%
<u>Total Jobs</u>					
Mountain View	61,210	59,550	71,440	74,270	77,940
Sunnyvale	115,270	107,530	126,850	133,020	141,660
Los Altos	9,950	9,570	10,890	10,520	10,660
Palo Alto	94,130	90,260	97,990	96,690	97,970
Cupertino	37,310	35,470	43,850	47,510	49,950
Market Area	317,870	302,380	351,020	362,010	378,180
Market annual growth ¹	N/A	-1.0%	3.0%	0.6%	0.9%
Mountain View annual growth ¹	N/A	-0.5%	3.7%	0.8%	1.0%

Note:

(1) Represents compound average annual growth during the five-year period beginning in the preceding column.

Sources: ABAG Projections '00; and Sedway Group.

A:\[Ex 3 MVDemographics.xls]Comparative [CJD]

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County (231,000) than in any other Bay Area county between 2000 and 2020. As the area's concentration of highly skilled workers increases and businesses in the area expand, the demand for high-end hotel and conference center space is likely to increase as well.

Key private and public sector employers with a significant presence in Mountain View are listed below. These companies represent potential sources of demand for new hotel/conference center development.

<u>Company</u>	<u>Employees in Mountain View</u>
SGI (formerly Silicon Graphics, Inc.)	3,286
Hewlett-Packard Company	2,865
El Camino Hospital	2,025
Netscape Communications	1,800
Synopsys, Inc.	1,500
Sun Microsystems	1,400
Acuson	1,200
KMPG Peat Marwick	980
Intuit	950
Alza Corporation	900
WebTV Networks, Inc. (Microsoft)	800
VERITAS Software Corporation	700
GTE Government Systems	700
Elexys International	500
Spectra-Physics Lasers	450
Remedy Corporation	400
VeriSign, Inc.	400
Safeway	320
Frost and Sullivan, Inc.	300
IBM Global Services	300
Juniper Networks, Inc.	300
Wal-Mart	257
Apex Communications	250
Pinnacle Systems, Inc.	250
Quintiles Pacific, Inc.	250
Costco Wholesale	230
PRI Automation (formerly Equipe Tech)	230

TRANSIENT OCCUPANCY TAX

The City of Mountain View's transient occupancy tax (TOT) is 10 percent of the rate charged to the guest. Since fiscal year 1993/94, the total number of rooms paying transient occupancy tax in the City has remained about the same.⁶ During this same time period, the City's TOT collections have

⁶There have been some hotel room renovations, demolitions, and new additions. The City's inventory of rooms paying transient occupancy tax was 1,350 in fiscal year 1993/94; 1,159 in fiscal

grown from \$1,132,000 in fiscal year 1993/94 to an estimated \$2,644,000 by fiscal year 1998/99. This represents an 18.5 percent average annual compound growth rate. The dramatic annual increase is a measure of the current demand for hotel rooms in Mountain View.

AIRPORT PASSENGER ACTIVITY

Passenger activity at the two international airports serving the market area (San Francisco and San Jose) is a clear indication of potential hotel/conference center usage; a significant percentage of the passengers are traveling for business purposes. As an illustration of this characteristic, a June 1999 analysis performed by Ernst & Associates for the San Mateo County Convention & Visitors Bureau indicated that for every 12.5 passengers at SFO, one room night was created at San Mateo County hotels. According to a survey conducted by San Jose International Airport in 1995, 48 percent of its passengers were traveling on business.

San Francisco International Airport (SFO), located 30 to 40 minutes driving time north of Mountain View in San Mateo County, recorded 31.0 million passengers in 1988. By 1998, that number had grown to 40.1 million, representing a 2.9 percent average annual compound growth rate.

San Jose International Airport, Santa Clara County's only major airport, is situated 35 to 45 minutes driving time south of the Charleston East site. Between 1987 and 1998, its passenger counts grew from 5.7 million to 10.5 million, representing a 5.7 percent average annual growth rate.

ECONOMIC/DEMOGRAPHIC TRENDS CONCLUSIONS

The economic and demographic trends analyzed are historically positive and are projected to grow at conservative, but positive, annual rates in the future. Continued economic growth and the increasing affluence and national prominence of locally-based companies stands to positively impact the demand for high quality hotel/conference center development into the foreseeable future.

years 1994/95 to 1997/98; and 1,344 rooms in fiscal year 1998/99.

IV. MARKET AREA LODGING/CONFERENCE SUPPLY

Existing hotels in the Mountain View market area that have been determined to be competitive with a potential hotel/conference center at the Charleston East site are those providing full services, first class facilities, and having at least a three diamond rating in 1999 from the California State Automobile Association. Given these criteria, 14 properties with about 4,000 guest rooms and 160,000 square feet of meeting space were surveyed (see Exhibits 4 and 5). Because the City is focused on higher-end hotel/conference center development, a number of existing and proposed medium quality hotels with limited services and/or limited meeting facilities were not considered potential primary competitors with a hotel on Charleston East (e.g., the Courtyard by Marriott, Residence Inn, and Hilton Garden Inn concepts). Among the 14 hotels presented, those catering to business and group travelers and providing conference and meeting facilities are the most competitive. Other identified hotel properties, with equal or better quality operations but with limited meeting facilities, would be competitive to a lesser degree.

HIGHEST QUALITY HOTELS

Among the hotels in Exhibit 4, four stand out as the highest quality facilities. These include the Hotel Sofitel, Stanford Park Hotel, Garden Court Hotel, and Crowne Plaza Cabana Palo Alto. With the exception of the Hotel Sofitel in Redwood City, all of these hotels are in or adjacent to Palo Alto.

Hotel Sofitel, Redwood City. Sofitel is a world-wide French chain of upscale hotels. The Redwood City affiliate occupies a unique site, located along a lagoon with views of San Francisco Bay. Quality finishes and furnishings, including inlaid marble floors, are signatures of the hotel. Hotel Sofitel lacks a business center but does provide fax and copy services through its concierge desk. The eight-story building offers nearly 13,000 square feet of meeting space and is the only hotel surveyed that offers a day spa. While information on the hotel's average daily rate and occupancy was not disclosed, the recent completion of a 100-room addition indicates strong performance. The area surrounding the hotel is primarily occupied by business parks and has few commercial services. Sofitel offers two restaurants (an upscale white tablecloth restaurant and a casual brasserie), a cocktail lounge, and a bakery.

Stanford Park Hotel, Menlo Park. The Stanford Park Hotel's location minutes from Stanford University and downtown Palo Alto contributes strongly to its success. The hotel's average daily rates and occupancy are close to \$200 per night and over 80 percent, respectively. While the location is excellent, the compact 3.98-acre site leaves no buffer against auto-oriented uses (sales, rental, repair, service) that surround the hotel. The strong performance of the hotel indicates that quality architectural design, focused services oriented toward executive business travelers, and proximity to major demand generators is sometimes more important than the character of the surrounding neighborhood.

Garden Court Hotel, Palo Alto. This is a small, 75-room property off University Avenue in downtown Palo Alto. It lacks a pool, spa, and common space characteristic of larger hotels, but each room has a private terrace, high-speed T-1 Internet access, a printer/fax/copier, office supplies, and a VCR. Shops

EXHIBIT 4
COMPARABLE HIGH-END AND CONFERENCE-ORIENTED HOTELS¹
MOUNTAIN VIEW AREA

Name/ No. Location	AAA Stars Rating ²	Year Opened	Stories	Number of Rooms	Site Size (Acres)	Sq. Ft. Meeting Space	Quoted Weekday		Comments, Amenities, Services
							Rooms	Suites	
1 Hotel Sofitel 223 Twin Dolphin Drive Redwood City	****	1987	8	419	6.15	12,985	\$259 \$329		Interior corridors. Some rooms with lagoon/bay views; day spa and salon; pool, sauna, exercise room; French restaurant, cocktail lounge; data ports, secretarial services, valet laundry, airport transportation.
2 Stanford Park Hotel 100 El Camino Real Menlo Park	****	1984	4	162	3.98	4,350	\$260 \$300	\$305 \$385	Interior corridors. Business center. Some rooms with fireplaces; pool, sauna, whirlpool, exercise room; restaurant and cocktail lounge; data ports, secretarial services; some rooms with coffeemakers and refrigerators.
3 Garden Court 520 Cowper Street Palo Alto	N/A	1986	4	75	N/A	5,536	\$250 \$320	\$295 \$395	Interior corridors. High-amenity boutique hotel in downtown Palo Alto. Fitness center; in-room fax/copy machines and T-1 lines; some rooms with fireplaces and Jacuzzis.
4 Crowne Plaza Cabana Palo Alto 4290 El Camino Real Palo Alto	N/A	1997	8	194	N/A	12,000		\$239 \$390	Interior corridors. Fitness center; outdoor pool. Due to overall costs of recent renovation, a spa will not be developed until a future date.
5 Dinah's Garden Hotel 4261 El Camino Palo Alto	***	N/A	1 to 2	148	10	4,000	\$195 \$205	\$325 \$450	Exterior corridors. Two swimming pools, several lagoons, a Japanese garden; fitness center, sauna; poolside restaurant and lounge; some rooms have private decks, balconies, refrigerators or full kitchens, wet bars.
6 Sheraton Palo Alto 625 El Camino Real Palo Alto	***	1972	4	342	5	9,562	\$200	\$289 \$360	Opposite Stanford University, interior corridors, landscaped grounds, business center, 9 meeting rooms.
7 Hyatt Richeys 4219 El Camino Real Palo Alto	***	1955	1 to 6	344	16	20,000		\$229 \$305	Landscaped grounds, interior and exterior corridors, some fireplaces, putting green, all guest rooms renovated as of June 1999.
8 Summerfield Suites Hotel 900 Hamlin Court Sunnyvale	N/A	1990	2 to 4	138	3.73	981	N/A \$209	N/A \$239	Interior corridors. All suites with kitchens; exercise room and outdoor swimming pool; on-site convenience store.
9 Sunnyvale Hilton 1250 Lakeside Drive Sunnyvale	***	1979	3	372	9	16,000	\$169	\$199 \$400	Lagoon and colorfully landscaped grounds; interior corridors, heated pool, 15 meeting rooms.

Continued

EXHIBIT 4
COMPARABLE HIGH-END AND CONFERENCE-ORIENTED HOTELS¹
MOUNTAIN VIEW AREA

Name/ No. Location	AAA Stars Rating ²	Year Opened	Stories	Number of Rooms	Site Size (Acres)	Sq. Ft. Meeting Space	Quoted Weekday		Comments, Amenities, Services
							Rooms	Rates Suites	
10 Biltmore Hotel & Suites 2151 Laurelwood Road Santa Clara	***	1990	2 to 9	262	4.5	7,500	\$139	\$169 \$210	Interior/exterior corridors. Heated pool, whirlpool, exercise room; restaurant and lounge; all rooms with honor bars, coffeemakers, microwaves, and refrigerators.
11 Embassy Suites Hotel 2885 Lakeside Drive Santa Clara	***	1985	10	257	3.81	4,490		N/A \$230	Interior corridors. Small indoor heated pool, sauna, whirlpool; fitness center; data ports; all rooms have coffeemakers and refrigerators.
12 Quality Suites 3100 Lakeside Drive Santa Clara	***	1991	7	221	2.8	1,000	N/A \$189	N/A \$209	Interior corridors. Business center. Heated pool, whirlpool, sports courts, fitness center; data ports; all rooms have honor bars, coffeemakers, microwaves, and refrigerators.
13 Santa Clara Marriott 2700 Mission College Santa Clara	***	1976	2 to 15	758	11.6	23,000	\$229	\$249	Interior corridors. Heated indoor/outdoor pool, whirlpool, 7 lighted tennis courts; 2 restaurants, cocktail lounge; data ports, secretarial services; some rooms with balconies, patios, coffeemakers, refrigerators, VCRs.
14 Westin Hotel Santa Clara 5101 Great America Parkway Santa Clara	****	1992	14	500	N/A	40,000	\$99	\$235	Interior corridors. Business center. Heated pool, sauna, whirlpool; 18-hole golf course, 4 lighted tennis courts; dining room, restaurant, and cocktail lounge; data ports, PC, secretarial services; all rooms have coffeemakers, some have honor bars, refrigerators.
Total Rooms:			1,998						
Total Square Feet of Meeting Space:			75,990						

Notes:

(1) The recently completed Mountain View Hilton Garden Inn is not included in this list due to its more mid-market appeal and absence of significant meeting space. That hotel has 160 rooms and 1,650 square feet of meeting space.

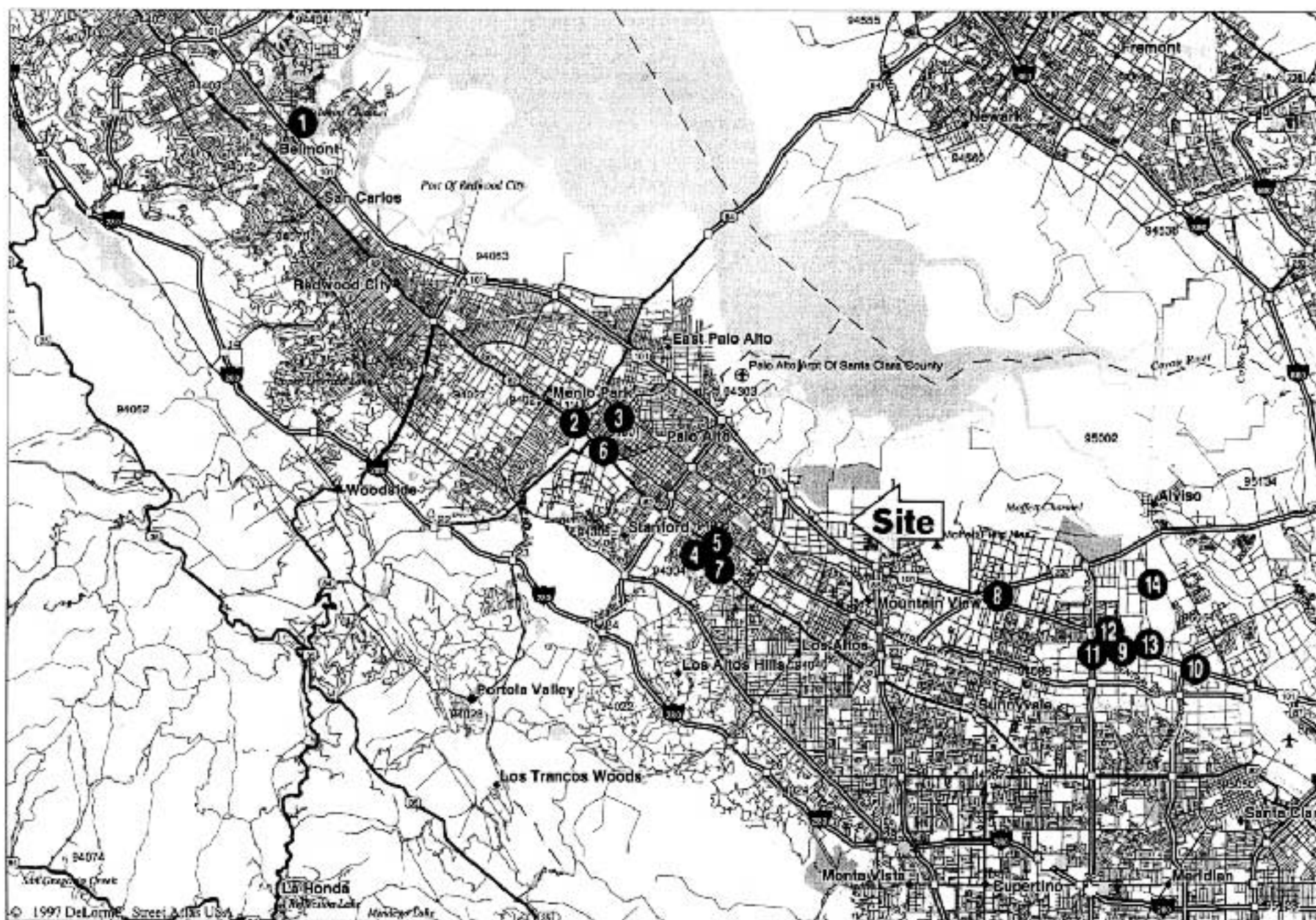
(2) Based on a 1 to 5 star system, five being the best.

Sources: Hotel operators and Sedway Group.

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EXHIBIT 5
HOTEL COMPARABLES MAP



and restaurants of downtown Palo Alto are proximate. The hotel's concierge reports strong demand for spa and massage services by both male and female business travelers, and the Garden Court books these services off-site because they are unable to offer them in the hotel. The Garden Court has been highly successful at catering to individual executive business travelers, although management reports that demand for the hotel's 5,536 square feet of meeting space fluctuates. Average occupancy of 85 percent for the hotel's rooms and an ADR significantly above \$200 per night illustrate the overall strength of the property.

Crowne Plaza Cabana, Palo Alto. This facility was a Hyatt hotel when it closed for renovation in 1994. The hotel reopened as a Crowne Plaza in 1997 with about 60 rooms; additional renovation work completed in 1998 and 1999 brought the total to 194 rooms. The property has an illustrious history that began with its original development and ownership by actress Doris Day in the early 1960s. The current \$20 million renovation has preserved 16 landmark, 35-foot-high Italian cypress trees that line the front drive. The hotel's 12,000 square feet of meeting space has also been fully renovated, creating the mid-Peninsula's largest event space. The hotel had planned to renovate and reopen its spa to offer guests and community members massages, facials, and the use of a sauna. Due to cost considerations, the spa renovation will not take place until a future date. The hotel's rates and occupancy during renovations have been relatively low, but the coming year since completion of renovations should allow the facility to achieve rates similar to those of the Stanford Park Hotel.

MEDIUM QUALITY HOTELS

Dinah's Garden Hotel, Palo Alto. Located just across the street from the Crowne Plaza Cabana, Dinah's Garden Hotel is a unique property occupying a specialized niche that is difficult to categorize. Dinah's is a Agarden-style® hotel B guests must enter and exit their rooms through exterior corridors and hallways; the lobby, restaurants, and rooms occupy several buildings spread over the property rather than a single structure. Recent renovations to the building resulted in the creation of exquisitely furnished rooms with International (Asian, African, Scandinavian, etc.) themes. Exterior renovations were limited to the lobby building (given a Japanese-style facade), while the remainder of the buildings on the property have been left with a dated 1960s motel style. The property has two swimming pools, several lagoons, and a Japanese Garden. Dinah's, which in the past had no meeting space, has renovated its main restaurant and added 4,000 square feet of new meeting space.

Summerfield Suites Hotel, Sunnyvale; Sunnyvale Hilton; Sheraton, Palo Alto; Rikeys Hyatt, Palo Alto; Biltmore Hotel and Suites, Santa Clara; Embassy Suites Hotel, Santa Clara, Quality Suites, Santa Clara. Located in central Silicon Valley and within the Mountain View market area, these seven hotels enjoy a strong individual business traveler market share in addition to a large group segment. They can be characterized as mostly older properties offering a quality, competent, and basic hotel experience to the business traveler. Their clients tend to be somewhat more budget conscious, less frills-oriented, and more susceptible to scaling back business travel due to fluctuations in the economy than the higher-end hotels cited above. Managers at these hotels reported having been more strongly impacted by softening occupancy that began in 1998 than the higher quality hotels presented above. This result is expected, given both the lower market tier orientation of these hotels and the concentration of several of them near the Santa Clara Convention Center. Indeed, a portion of their business represents overflow from the two convention hotels (discussed below) that are immediately proximate to the convention center.

CONVENTION/CONFERENCE HOTELS

Marriott Hotel, Santa Clara. The Marriott is the area's largest hotel at 758 rooms and 23,000 square feet of meeting space. Opened in 1972, it is also the oldest among the hotels listed in Exhibit 4. Despite its size and age, the hotel performs with occupancy in the mid-to high-seventies. In early 1998, the Marriott Santa Clara had plans to demolish 170 of its rooms and replace them with a new 350-room tower. By year's end (after the Asian economic crisis), Marriott had announced that it would renovate instead. Management reported that the company was already close to its target number of rooms in the Silicon Valley with openings in other cities and did not want to overexpose itself in the market. There was also a realization that the hotel was dated and a comprehensive renovation might be more effective than the addition of new rooms. The construction of a new 280-room compact full-service Hilton Hotel across from the Santa Clara Convention Center was another consideration in Marriott's decision.

Westin Hotel, Santa Clara. Like the Marriott, the 500-room Westin Hotel also planned a major expansion of 150 to 200 rooms at the beginning of 1998, but decided to put these plans on hold in favor of renovation. A key consideration in Westin's case is that Santa Clara is near downtown San Jose, where the San Jose Redevelopment Agency plans a new 350- to 450-room hotel for its Aeast@ hotel site. Given the Westin's mid-market appeal, the proliferation of new mid-market hotels throughout the area also influenced the decision not to expand.

PLANNED OR RECENT ADDITIONS TO COMPETITIVE HOTEL SUPPLY

Most of the planned, proposed, or under-construction hotels that appear in Exhibit 6 (with a map as Exhibit 7) would not be directly comparable to a high quality hotel/conference center developed on the Charleston East site because of their location, product type, or quality level. Further, some of these projects are in the early conceptual stage and may not come to fruition in the near term due to legal and/or entitlement issues.

There are, however, a number of confirmed new projects that, for the same reasons mentioned above, would be directly competitive with a hotel/conference center at Charleston East:

- \$ **Crowne Plaza Cabana, Palo Alto** B The Crowne Plaza completed its renovations to its last 86 rooms in 1999 bringing its total room count to 194 and meeting space to 12,000 square feet.
- \$ **Hotel Sofitel, Redwood City** B A 100-room addition opened in the third quarter of 1999 with the hotel now totaling 419 guest rooms.
- \$ **Santa Clara Hilton** B This 280-room Acompact full-service@ product is scheduled to open by September 2000 and is proximate to the Santa Clara Convention Center. The Acompact full-service@ product is smaller in size than a typical full-service Hilton Hotel, but is of

**EXHIBIT 6
SELECT PLANNED AND PROPOSED HOTEL DEVELOPMENTS
MOUNTAIN VIEW MARKET AREA¹**

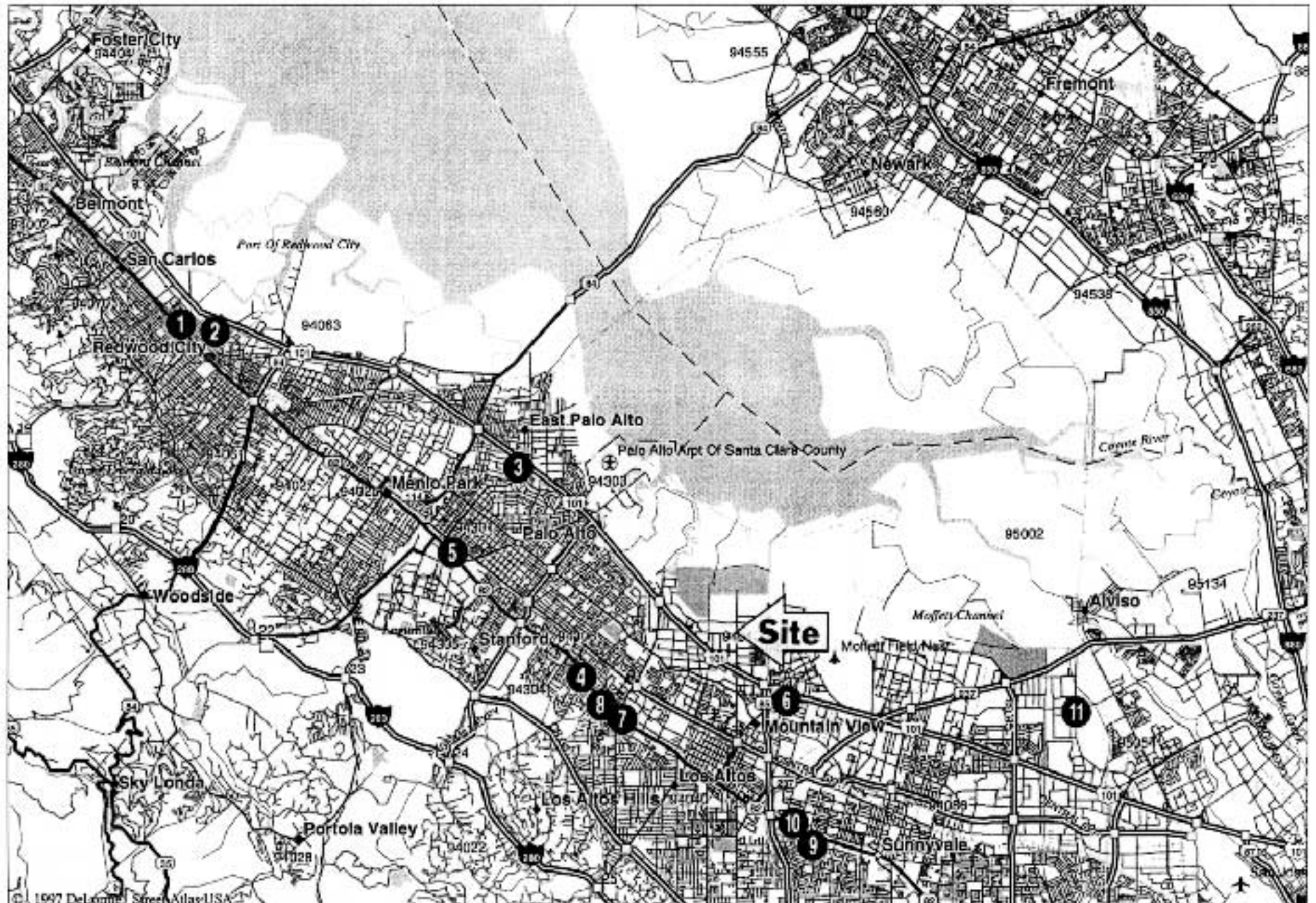
Project/ No. Location	City	Number of Rooms	Site Size (Acres)	Meeting Space (Sq. Ft.)	Status	Comments
1. Hampton Inn 1836 El Camino Real	Redwood City	60	NA	None	Application has been approved, no building permits issued.	Limited service hotel.
2. Goodnight Inn 485 Veterans Boulevard	Redwood City	44	NA	None	Application has been approved.	Expansion and renovation of former Howard Johnson Hotel. Limited service hotel.
3. University Circle NWC University Ave. & Woodland Ave.	East Palo Alto	230	12.2	NA	Basic site plans have been approved. A hotel management company has not yet been chosen. There are currently homes on the property site that are expected to be relocated.	Hotel is a part of a redevelopment project that includes 460,000 sq.ft of office, and 15,000 sq.ft. of ground floor retail on 12.2 acres. It is expected that this project will include meeting room space, however the square footage has not yet been determined.
4. Hyatt Richeys 4219 El Camino Real	Palo Alto	320	22.0	25,000	Proposed major redevelopment. Project is still in early conceptual stage.	Solit Interest Group is the proposed developer. The project would demolish an existing hotel and redevelop a new project including 302 multifamily residential units.
5. Westin Hotel 675 El Camino Real	Palo Alto	184	1.3	1,200	Under construction. Expected to open January 2000.	Pacific Hotel Management LLC will own the Westin Hotel and the adjacent Sheraton Palo Alto hotel. The Westin Hotel will feature five courtyards and high-quality amenities.
6. Unnamed motel Fairchild Drive near U.S. 101 Interchange	Mountain View	50	NA	NA	Application has been approved.	Small limited service motel.
7. Residence Inn 4444 El Camino Real	Los Altos	131	4.7	None	Currently reviewing the final design details. Excavation has begun for underground parking.	The hotel is planned to be built upon two acres of the site. Part of the "Tree Farm" project.
8. Marriott Courtyard 4320 El Camino Real	Los Altos	190	2.0	1,500	Revised plans are currently being reviewed.	Limited service hotel. There is an existing motel on the site that will be redeveloped.
9. Unnamed project 606 South Bernardo Ave.	Sunnyvale	118	1.2	NA	Plans have been submitted to the Planning Department for preliminary review. No formal application has yet been submitted.	Concerns have been raised in the preliminary review about the project's relatively high density. The planning department recently advised the developer to downsize the project.

**EXHIBIT 6
SELECT PLANNED AND PROPOSED HOTEL DEVELOPMENTS
MOUNTAIN VIEW MARKET AREA¹**

Project/ No. Location	City	Number of Rooms	Site Size (Acres)	Meeting Space (Sq. Ft.)	Status	Comments
10. Grand Hotel 871 W. El Camino Real	Sunnyvale	104	1.9	None	Under construction.	A portion of the hotel is planned to accommodate extended stays.
11. Santa Clara Hilton 4949 Great America Parkway	Santa Clara	280	3.9	5,000	Under construction.	Next to the Santa Clara Convention Center and the Great America Theme Park. Eight-story "compact full-service" hotel with 280 parking spaces and 32,000 sq. ft. of restaurants, meeting space, and limited retail. The meeting space is to be in small "classroom style" rooms totaling
Total Rooms and Meeting Space:		2,088		33,650		
Notes: (1) Includes Redwood City, Menlo Park, Palo Alto , Sunnyvale, Santa Clara, Cupertino, Los Altos, and East Palo Alto. Sources: City planning departments; developers; and Sedway Group A:\[Ex 6 MVHotelP&P.xls]Hotel[CJD]						

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EXHIBIT 7
PLANNED AND PROPOSED HOTELS MAP



similar quality. It is of higher quality and somewhat larger than the Hilton Garden Inn concept. The new Santa Clara Hilton will have restaurants, retail shops, and limited meeting space (5,000 square feet). Its major customer segments will be tied to groups utilizing the convention center as well as individual business travelers.

\$ ***Westin Hotel, Palo Alto*** B This 184-room, upscale hotel is expected to open in January 2000 with 1,200 square feet of meeting space. It is being developed by the owners of the Sheraton in Palo Alto, situated adjacent to the Westin. Joint marketing efforts between the two hotels are likely to be directed at individual business travelers and groups.

In summary, the market survey resulted in identification of two properties with recent additions/renovations and two properties new to the market area. These properties will add 650 guest rooms that would be competitive with a hotel/conference center at Charleston East. In addition, current projects in planning and market demand suggest that another approximately 300-room property of medium to high quality may be developed in the area over the next several years. This property could be one of those documented in Exhibit 6 or it may be one that has not yet been identified.

V. MARKET AREA LODGING/CONFERENCE DEMAND ANALYSIS

EXPLANATION OF DATA SAMPLE

Because the City of Mountain View is interested in the possibility of a high-end hotel/conference center concept on the Charleston East site, the focus of the market analysis in this report has been on those lodging facilities providing a higher level of service and amenities, more sophisticated building design, meeting rooms, and better quality interior finishes and furnishings than the more standard hotel product. Due to these criteria, standard limited service, Amid-market,[®] and extended stay hotel concepts such as the Hilton Garden Inn, Marriott Residence Inn, and Courtyard by Marriott were not included as competitors.

Based on the criteria mentioned above, data were collected on the 14 hotels mentioned in the previous section of the report and presented previously in Exhibit 4. Most of these hotels total 100 to 300 rooms and have published weekday rates over \$200 per night.

Of the 14 hotels, 10 participate in an annual Smith Travel Research (STR) survey of hotel occupancy, room rates, and other performance indicators. These performance indicators are the primary gauges for estimating the demand for lodging and conference space. STR provides the results of the survey in the aggregate so as not to reveal the performance of any single property. The 10 hotels surveyed are among the larger facilities and therefore represent about 85 percent of the approximately 4,000 total rooms among the 14 competitive hotels. Hotels typically are willing to provide performance data to STR, which in turn publishes the data in the aggregate and follows strict procedures to protect the confidentiality of individual hotels that comprise its database. Aggregate trends in occupancy, rates, and room night demand for the data sample are discussed below. Because the four properties that did not participate in the survey are widely known to have among the strongest occupancy and room rates of the 14 competitive hotels, the aggregate data from the 10 participating hotels indicates operating performance that is below what would be expected if the remaining four hotels had participated.

HISTORICAL OCCUPANCY AND ROOM RATE TRENDS

As can be seen in the STR data in Exhibit 8, hotel occupancy showed steady improvement between 1993 and 1996, increasing from 69.5 percent to 80.3 percent. Under normal conditions when an area-wide occupancy exceeds 70 percent, it is considered a Ahealthy@environment for operations and for new hotel development. It is therefore logical that several of the projects mentioned in Section IV are now under development or already complete.

During 1997, the Asian economic crisis occurred and impacted occupancy negatively in both that year and in 1998. However, at 75.8 percent occupancy in 1998, the market was still performing well. Through August of 1999, there has been an increase in year-to-date occupancy to 77.4 percent, even with increases to the hotel supply in terms of both directly competitive and indirectly competitive hotel rooms throughout the market area and adjacent areas. Overall, room night demand has averaged a 2 percent per annum increase since 1993. However, this relatively low annual growth

EXHIBIT 8
HISTORICAL HOTEL MARKET PERFORMANCE
MOUNTAIN VIEW AREA¹

	1993	1994	1995	1996	1997	1998	1999 ²
Average Annual Occupancy	69.5%	75.1%	78.1%	80.3%	79.8%	75.8%	77.0%
Average Daily Room Rates	\$85.72	\$89.02	\$97.44	\$111.55	\$132.27	\$150.30	\$156.53
Percentage Change	0.2%	3.8%	9.5%	14.5%	18.6%	13.6%	N/A
RevPAR³	\$59.57	\$66.82	\$76.05	\$89.56	\$105.59	\$113.12	\$120.55
Percentage Change	8.7	12.2%	13.8%	17.8%	17.9%	7.1%	N/A
Room Nights Available	1,448,320	1,448,320	1,448,320	1,448,320	1,448,320	1,448,320	964,224
Room Nights Demanded	1,006,520	1,087,181	1,130,478	1,162,769	1,156,236	1,097,800	752,985
Percentage Change	8.5%	8.0%	4.0%	2.9%	-0.6%	-5.1%	N/A
Room Revenues	\$86,280,531	\$96,779,041	\$110,151,743	\$129,708,816	\$152,934,844	\$164,999,601	\$114,861,883
Percentage Change	8.7%	12.2%	13.8%	17.8%	17.9%	7.9%	N/A

Notes:

(1) Includes Sheraton Hotel Palo Alto; Hyatt Rickey's, Palo Alto; Marriott Santa Clara; Biltmore Hotel & Suites, Santa Clara; Westin Santa Clara; Embassy Suites Santa Clara; Hilton Inn Sunnyvale; Quality Suites Silicon Valley, Santa Clara; Hotel Sofitel, Redwood City; Summerfield Suites, Sunnyvale. Data on the Stanford Park Hotel, Garden Court, Dinah's Garden Hotel, and the Crowne Plaza Cabana Palo Alto were either unavailable or incomplete.

(2) 1999 data through August only was available as of the date of this report.

(3) Revenues per available room.

Sources: Smith Travel Research; Scott Hospitality Consultants; and Sedway Group.

A:\[Ex 4 & 8 MVHotelData.xls]Market[CJD]

25-Jan-01

rate is not indicative of the actual growth in demand because most of the highest quality hotels are already operating at optimum levels of occupancy on days of the week popular among business travelers. In fact, what is happening is business is being turned away due to the lack of accommodations on certain days. For example, some operators of high quality market area hotels indicated that, on Tuesdays and Thursdays, they turn away as many guests as they are able to accommodate. The implication of this trend is that thousands of room nights in local high quality hotels are being turned away each year. Customers turned away must stay farther from their chosen location in order to find a comparable facility, or settle for a nearby hotel room in a lower quality facility.

Average daily room rates (ADRs) in Exhibit 8 have shown strong growth since 1993, with annual increases as high as 18.6 percent. This is an indicator that the competitive hotels are fully booked during peak times for business travel (mid-week, particularly Tuesday and Wednesday) and are able to increase rates even though occupancy may be reduced on off-peak days. For 1998, the latest full year for which data were available, the hotels in Exhibit 8 had occupancy of 75.8 percent and an ADR of \$156.63. Again, these figures understate the strength of the market because four of the best-performing hotels did not provide data for the survey. As a point of comparison, PKF Consultants regularly collects data on the larger San Jose/Peninsula Market area. PKF reported occupancy of 76.0 percent and an ADR of \$142 in 1998 for that larger area. The higher rates among the selected Mountain View market area hotels are a result of rate premiums due to the high quality of the facilities and their services.

MARKET SEGMENTATION AND OCCUPANCY PATTERNS

Sources of room night demand (market segmentation) include individual business travelers, conference participants/groups and leisure travelers. Based upon our research, the hotels listed previously in Exhibit 6 have the following market segmentation on average:

Individual Business Travelers (Corporate)	60-70%
Group/Convention (Corporate, Association and SMERF ⁷)	20-30%
Leisure Traveler	5-10%

Individual Business Travelers (IBTs) in Mountain View are tied directly to the commercial office space of Santa Clara County and, to a lesser degree, southern San Mateo County. The average length of stay for this segment is approximately two to three days and typically occurs Monday through Thursday. The individual business traveler has become accustomed to paying relatively high room rates, due to the high occupancy levels of quality local hotels during the weekdays. Because the supply of first-class office space and concentration of high-profile firms is expected to increase throughout the county, growth in this market segment is expected to continue for several years into the future.

Group/Convention Travelers include travelers desiring a property with meeting space for conventions, sales and orientation meetings, management seminars, new product orientations, training programs, social functions, etc. The majority of this demand occurs during the commercial week, Monday through Thursday. The SMERF segment (social, military, educational, religious and

⁷social, military, educational, religious and fraternal groups

fraternal groups) is generally regional in nature and meets on weekends and during holiday seasons, as it is more rate sensitive than the other group segments. These off-peak times allow them to get favorable rates. This segment is expected to grow moderately in accordance with general economic and demographic growth trends for the next several years; there are no major new government or non-profit institutions planned in the area, and reduction of the Bay Area military presence in the larger region will erode some growth that would have otherwise been expected (military represents about 20 percent of the SMERF segment).

The level of tourist activity (Leisure Travelers) in the area is closely related to fluctuations in the national economy and the strength of the dollar against foreign currencies. This segment is seasonal, generating a greater amount of lodging demand during the summer season and during student orientations, graduations, and home football games related to Stanford University and other local institutions. A small percentage of this demand is Asecond bedroom@ demand from friends and relatives visiting area residents. The leisure segment is expected to experience relatively little growth, as the population base is relatively flat.

Our research indicates that demand is predominantly for hotel rooms during the weekday and there is a far lower demand level during the weekend. Based on our interviews, this estimated pattern of occupancy among comparable market area hotels is illustrated below:

Monday	70-75%
Tuesday	95-100%
Wednesday	95-100%
Thursday	80-85%
Friday	70-75%
Saturday	50-55%
Sunday	50-55%

With this pattern, it is easy to see the occupancy challenge provided by the weekends. To deal with this challenge, some hotels such as the Garden Court and the Stanford Park Hotel specialize in weekend weddings and other social functions. Others, like the Westin and Santa Clara Marriott, market themselves to the larger-sized SMERF group business quite aggressively.

INTERVIEW RESULTS FROM MAJOR MOUNTAIN VIEW BUSINESSES

Included in the market analysis for the proposed hotel/conference center was a survey of representative large and small local businesses and institutions to learn of their interest in a potential hotel/conference center project at Charleston East and what their likely use of the facility would be for both overnight accommodations and meetings facilities. A list of the companies/insitutions contacted and their number of Mountain View employees follows:

<u>Company</u>	<u>Number of Mountain View Employees</u>
SGI	3,286
NASA Ames	3,000
Hewlett-Packard (4 separate campuses)	2,865
El Camino Hospital	2,025
Netscape Communications	1,800
Synopsys Inc.	1,500
Sun Microsystems	1,400
Acuson	1,200
KPMG Peat Marwick	980
Intuit	950
Alza Corporation	900
WebTV Networks, Inc. (Microsoft)	800
Veritas Software Corporation	700
Spectra-Physics Inc.	450
Remedy Corporation	400
Trident Microsystems	305
Quintiles Pacific, Inc.	270
Network Computing	250
Scios (Nova) Inc.	200
American Century Invest.	198
Aviron	190
Lloyd-Ritter Consulting	100

In general, most companies were favorably disposed to using a hotel/conference center at the Charleston East site. The quantity of their usage is difficult to gauge, however, because many of the companies are decentralized with regard to this function and have no focal point that handles all hotel room needs and/or all off-premises meeting needs. However, their usage has been incorporated in the STR occupancy statistics discussed earlier. Anecdotal input from a number of companies is provided below:

- \$ SGI (formerly Silicon Graphics, Inc.) is located adjacent to the Charleston East site and generates over 19,000 room nights in the area annually. To put this large number of room nights in context, a 300-room hotel offers 109,500 room nights (300 rooms times 365 days). SGI reports that it would direct a significant amount of its rooms and meetings business to a hotel/conference center at Charleston East.
- \$ Sun Microsystems, although also situated in close proximity to the Charleston East site and with 2,300 employees in multiple buildings, is too decentralized to provide definitive quantitative feedback on their potential use of the facility.
- \$ KPMG has its own meeting and conference facilities but would use the guest rooms for recruiting purposes.
- \$ Aviron does most of its meetings on campus but could possibly use a board room meeting environment once a month along with 5-10 hotel rooms once per month.

- \$ Hewlett-Packard books several thousand room nights per year and two to three meetings a month. They would make significant use of a new facility at Charleston East.
- \$ El Camino Hospital would use a hotel/conference center's guest rooms (for visitors to hospital patients, board members and doctors on temporary assignments at the hospital), but would not use meeting space to a significant extent.
- \$ NASA/Ames has its own meeting space (the former Officers Club) and dorm-type lodging accommodations; therefore, it would use the hotel/conference center infrequently. NASA/Ames is planning to demolish and rebuild a significant portion of its lodging and meeting facilities, but the service and quality levels would still not approximate that of a high-end hotel/conference center on Charleston East.
- \$ Intuit, Inc. would make significant use of a hotel/conference center's meeting rooms and guest rooms. Intuit books several thousand room nights per year.
- \$ Alza Corporation, also a close neighbor of Charleston East, has its own conference rooms but would make extensive use of the facility's guest rooms, booking several hundred room nights each year.
- \$ Microsoft's Mountain View campus is new to the market area and will have its own 300-seat auditorium and other meeting rooms by March 2000. Microsoft was therefore unable to comment on its potential use of a facility at Charleston East. However, it is anticipated that the company would at least generate some room nights, if not make use of conference space.
- \$ Network Computing Devices, Inc. could use both the meeting rooms and guest rooms on a regular monthly basis.

Based on the survey, important characteristics of this business include the following:

- \$ Most of the business in both lodging and meeting space is mid-week, although, on occasion, some conferences extend into the weekends.
- \$ Shoreline Amphitheater concerts generate some business on the weekends, especially from the show crews. The performers, however, tend to prefer downtown San Francisco.
- \$ Stanford University is another potential source of weekend business during home sports games, graduations, class reunions, new student orientations, and other events.
- \$ Because of the area's temperate climate, several meeting planners prefer the choice of an outdoor meeting venue.
- \$ Very high-tech expectations for both the hotel guest room and the meeting rooms include fax lines, telephone lines for high speed Internet access, teleconferencing capability, a hotel business center, overhead projectors, etc.
- \$ Desired recreational amenities include an indoor/outdoor swimming pool, spa facility, tennis, and access to Shoreline Golf Links.

ESTIMATED FUTURE GROWTH IN ROOMS DEMAND

Estimated future growth in hotel room demand is based on historical growth in the demonstrated demand base provided by STR and economic factors influencing future demand for hotel/conference facilities. Other factors which typically influence growth in demand include the following:

- \$ the addition of new properties allowing the recapture of business that previously has been turned away to nearby geographic areas or lower-tier hotels during peak periods of use (i.e., Tuesdays and Wednesdays) due to capacity constraints; and
- \$ new customers who are attracted to a location because of the addition of a hotel/conference center facility operated by companies these customers have used in other parts of the country.

Given the historical growth rate of 2.0 percent in room night demand among existing comparable hotels, the factors listed above, and the proposed increases in supply, the data indicate that future growth in rooms demand for properties similar to those listed in Exhibit 6 will average slightly over 4.0 percent for the next several years. It should be noted that the recapture of previously turned away demand is included in this percentage average. For example, in years when there are no currently planned increases in rooms supply, the growth rate will be approximately 2.0 percent due to the aforementioned occupancy constraints in mid-week, whereas, when there are significant increases in rooms supply, the growth rate may spike at 7.0 percent. Overall, market growth in demand reflects favorably on new hotel/conference center development at Charleston East.

VI. DEVELOPMENT PARAMETERS FOR A PROTOTYPE CHARLESTON EAST HOTEL/CONFERENCE CENTER

DEVELOPER INTERVIEWS

In order to determine the most appropriately sized and amenitized hotel/conference center on the Charleston East site, leading hotel/conference center developers and operators throughout the United States were interviewed. The scope of the interviews was national because hotel/conference centers across the nation are operated by relatively few key companies. Those interviewed included:

- \$ Andrew Dolce, Chairman and CEO, Dolce International, Montvale, NJ;
- \$ Burt Cabanas, Chairman and CEO, Benchmark Hospitality, The Woodlands, TX;
- \$ Jeffrey F. Davenport, President, Network Conference Company, San Jose, CA;
- \$ Gene A. Keluche, Chairman, International Conference Resorts, Scottsdale, AZ;
- \$ Dave McCaslin, President, Doral Hotels & Resorts, Washington, DC;
- \$ Terry Harwood, Vice President and General Manager, Marriott Conference Centers, Washington, DC; and
- \$ Jorgen Roed, President and CEO, Scanticon International, Inc., Princeton, NJ.

All but Doral Hotels and Scanticon International responded enthusiastically about the possibility of developing one of their hotel/conference center products on the Charleston East site. Additionally, of those that responded, all but Network Conference Company would be interested in being the developer/operator of any potential project. Network Conference Company is prevented from participating in a project at Charleston East due to agreements it has with other local businesses partners not to be involved in potentially competitive developments.

PRECEDENT COMPARABLE PROPERTIES

Part of the interview process was to describe the Charleston East locale and the market area lodging/conference supply and demand dynamics to the operators to learn if they were already operating hotel/conference centers in other locations that could be looked at as precedents for Mountain View. These precedents are cited below. A limited number of brochures from each facility have been given to the City of Mountain View Community Development Department for those who wish to become more familiar with any of the projects.

- \$ The Hayes Mansion, San Jose, CA; a Network Conference Company property developed as a joint-venture between Network and the City of San Jose; undergoing its second expansion that will bring it to 214 guest rooms and 35,000 square feet of meeting space; 30 minutes from San Jose International Airport; 6.0-acre parcel; developed in 1995.
- \$ Hamilton Park, a Dolce Conference Center, Florham Park, NJ; situated in the heart of Morris County in New Jersey's prestigious corporate corridor; 20 minutes from Newark International Airport; less than one hour from Manhattan; 219 guest rooms, 45,000 square feet of meeting space in 40 meeting rooms; complete fitness center, golf at nearby clubs; 13-acre parcel; built in 1989.

- \$ Scottsdale Conference Resort, Scottsdale, AZ, operated by International Conference Resorts; situated 25 minutes from Phoenix Sky Harbor International Airport; 325 guest rooms, three-story facility with 50,000 square feet of meeting space in 50 different meeting rooms; a new \$2 million media and business center; two 18-hole golf courses; sports and fitness center; salon/spa; 19.8-acre parcel; built in 1976 but expanded and upgraded a number of times.
- \$ Evergreen Conference Resort, Stone Mountain, GA., operated by Marriott Conference Centers; 16 miles from Atlanta; 30 miles from Hartsfield International Airport; situated inside 3,200-acre Stone Mountain Park; 249 guest rooms and suites; 35 meeting rooms with a total of 37,000 square feet; 36 holes of Robert Trent Jones-designed championship golf; 10-11 acre parcel; built in 1990.
- \$ Lansdowne Conference Center, Leesburg, VA, a resort conference center operated by Benchmark Hospitality; situated 8 miles from Dulles International Airport and 45 minutes from Union Station and Washington National Airport; 305 guest rooms and suites; 45,000 square feet of conference center space; 18 holes of Robert Trent Jones Jr. golf; health club and spa.

Among the precedents, the Hayes Mansion in San Jose is the only project that had any form of public sector participation or subsidy. The City of San Jose issued a Certificate of Participation (COP) bond in order to finance the construction of the project. While COP financing was more expensive than traditional financing, it had the advantages of circumventing the tight capital market for capital from mortgage lenders. COP financing also allowed for capitalizing the bond interest and stepped payments on the bond. Under its arrangement with Network Conference Company, the City has retained ownership of Hayes Mansion and uses ground lease payments to service the COP bond.

PROTOTYPE PROJECT DESCRIPTION

Given our own experience and judgment in hotel development and operations, the input from various hotel/conference center operators, their understanding of the existing Precise Plan, their understanding to date of the market area's supply-demand dynamics, development financial feasibility factors and precedents at preexisting facilities situated on comparable sites, we have developed the following prototype for a hotel/conference concept on the Charleston East site:

Site Requirements:	10 to 14 acres
Building Square Footage:	250,000 - 285,000 square feet
Building Height:	40 feet with various elevations between guest room tower and meeting room complex

Parking:	Approximately 450 surface spaces (1.5 spaces per room) ⁸
Amount of Meeting Space:	35,000 to 40,000 square feet in various sized rooms
Meeting Room Amenities:	SDN lines to each room; T3 capabilities; video conferencing; web streaming; smart work stations for meeting planners; hotel business center
Number of Guest Rooms & Suites:	300
Typical Guest Room Size:	375 - 400 square feet
Special Guest Room Amenities:	Direct, high speed internet access; two telephone lines in each room, 27- to 29-inch color television
Recreational Amenities:	Spa/Fitness Center; Heated Swimming Pool; Access to Golf; On-Premises Tennis
Development Budget:	Approximately \$60,000,000 in 2000 dollars. This is the equivalent of \$200,000 per room including costs of the conference center (\$175,000 per room excluding conference center costs). This figure does not include land costs and assumes surface parking. ⁹

Based on research and interview findings, these prototype development parameters represent the likely long-term market potential for development on the Charleston East site at the time of this study. Changing market conditions and other factors could result in an actual project that varies materially from the parameters listed above.

ALTERNATIVE TO PROTOTYPE PROJECT

It would likely be possible to develop a more standard lodging concept instead of the hotel/conference center prototype described above for the Charleston East site. Such a concept could include a three-star, 250-room Hilton or Sheraton with 15,000 or less square feet of meeting space.

Development costs would be lower than those of the prototype project, likely in the range of \$165,000 per room, exclusive of land costs. Fewer amenities would be offered and the quality of finishes, service levels, and meeting space would be lower. In addition, such a project would generate lower revenues and would therefore generate smaller fiscal impacts (e.g., property taxes, transient occupancy taxes, etc.) than the prototype project described above. However, this more

⁸The number of parking spaces is based upon the requirements of the operators interviewed, as well as our reconciliation of the City of Mountain View's separate parking requirements for hotels (approximately 1.1 spaces per room) and conference centers (one space per 3.5 seats).

⁹If the City were to require structured parking in order to increase the amount of project open space, this would increase the development budget and could impact the feasibility of the project, depending on a number of factors.

standard type of project would likely only require about five to six acres of land, leaving the remaining 12.7 to 13.7 acres available for other types of development. While this type of project would be likely to garner market support, such a project alternative does not appear to meet the City of Mountain View's expectations for a truly landmark hotel project on the Charleston East site.

VII. FINANCIAL FEASIBILITY ANALYSIS

PREMISE OF FINANCIAL FEASIBILITY ANALYSIS

Because in some cases the type of project that generates market interest may not be feasible from a financial standpoint, an order-of-magnitude financial feasibility analysis of a prototypical project on the Charleston East site was developed. This order-of-magnitude analysis essentially considers potential income of the prototype project as defined by market research, as well as associated development costs.

A major purpose in performing the order-of-magnitude analysis was to consider whether the project would be likely to need any form of City subsidy to be feasible. The issue of subsidy and the results of the analysis are discussed following a description of the prototype project.

In considering financial feasibility analysis and the findings discussed below, it should be noted that both the hotel rooms and the conference space are integral to the project's economics. For instance, a large amount of meeting space with fewer or no hotel rooms is very unlikely to be financially feasible without subsidy.

MARKET ASSUMPTIONS

In formulating estimates of the prototype hotel/conference center's projected operating performance, we have considered the results of our direct market research of selected Mountain View-based companies, interviews with nationally prominent hotel/conference center operators, and the STR data from nearby competitive facilities. It should be noted, however, that a hotel/conference center at Charleston East would be expected to have a broader market appeal than a standard hotel, drawing guests and meeting groups regionally and from around the country due to its size, amenities, and the reputation of its operator.

Fair Share Analysis, Market Segmentation, and Occupancy

Included in the competitive market analysis is a fair share model used as a tool to quantify the prototype hotel/conference center's potential optimum competitive position. Fair market share is defined as the percentage of demand allocated to a given hotel based on its ratio of available guest rooms to the total number of rooms in the competitive set of hotels.

Realization of fair market share is based on the attributes of a property relative to its competitive hotels. Attributes could include its location, management expertise, physical condition, marketing orientation, rates charged, age, affiliation with a national brand, reputation, size and types of facilities, and amenities. Factors indicating that a property would possess competitive advantages suggest a market share in excess of 100 percent of a hotel's fair share,[®] while competitive disadvantages are reflected in less than 100 percent fair share. A hotel property may deviate from its fair share for two basic reasons:

- \$ It is more or less competitive with other properties in its market area in terms of facilities, location, and room rate structure for particular market segments.

\$ There is a period of time required after opening a new or expanded hotel, resort, or conference center to reach its anticipated market position.

Regarding a potential hotel/conference center at Charleston East, we have estimated it will be penetrating the three separate market segments as described in Section V at differing levels because of its attributes:

\$ Individual Business Traveler: 85 percent, Year One; 93 percent, Year Two; 95 percent, Year Three and thereafter;

\$ Group Traveler: 95 percent, Year One; 100 percent, Year Two; 110 percent, Year Three and thereafter;

\$ Leisure Traveler: 75 percent, Year One; 80 percent, Year Two; 90 percent, Year Three.

The hotel/conference center prototype would be most competitive with the group and conference market segment due to its location and recommended project description. From its first day of operation, it would be the definitive conferencing hotel facility in the Mountain View market area, which has a defined need for both guest rooms and meeting facilities.

From an individual business traveler perspective, the prototype hotel/conference center would also be attractive due to its location and the estimated quality of its facilities. However, business travelers frequently choose to stay proximate to their customers' offices and facilities, and there are several other first class office complexes in Santa Clara County that have lodging facilities in closer proximity than the Charleston East site. Accordingly, we have estimated that it will not be until Year Three that full penetration is achieved for this segment when the market area is more fully developed.

The leisure market segment is the Mountain View area's smallest and typically occurs on weekends throughout the year when hotel operators provide advantageous rate discounts. Because the hotel/conference center would be the market area's newest high-quality facility, it will be less competitive for this rate-sensitive segment.

In addition to penetrating the estimated future market demand base, a hotel/conference center developed under a widely known brand name affiliation would be able to create its own demand; guests and group events would be drawn to the facility from other surrounding areas because of the operator's reputation. Further, a hotel/conference center at Charleston East will be able to recapture business that previously had been turned away from comparable hotels in the market area (particularly on Tuesdays and Wednesdays) due to previous capacity restraints. When turned away from comparable hotels due to capacity constraints, hotel guests must either stay in a hotel of lower quality in the immediate area, or travel farther from their ideal location to stay at a hotel of similar quality.

Given anticipated market segmentation, our fair share analysis, and the recommended project description discussed in Section VI, we have estimated a 300-room hotel/conference center at Charleston East could achieve the following occupancies during its first five full years of operation:

Year	Market Area Comparables Occupancy (%)	Charleston East Prototype Occupancy (%)
2003	75	65
2004	77	73
2005*	79	79
2006	78	79
2007	79	79
*Stabilized Year		

By its stabilized year in 2005, the property's market segmentation is estimated as follows:

Individual Business Traveler	46%
Group	47%
Leisure Traveler	7%
Total	100%

Average Room Rate and Comprehensive Meeting Package (CMP) Rate

The estimated average room rate achievable at the Charleston East site is based on the anticipated quality and service level of the proposed hotel/conference center, prevailing room rates at competitive hotels in the market area, the historical rate of annual increases in the market area's average room rates, estimates of the area's future supply and demand dynamics, the quality of the site's location, and the market orientation of the facility. Overall, it should be noted that a relatively conservative approach was taken with the rate projections so as not to overstate the project's potential financial performance.

Year	Projected Market Area Comparables Average Rate	Charleston East Prototype Average Rate
2003	\$198	\$178
2004	\$206	\$196
2005	\$216	\$228
2006	\$227	\$235
2007	\$236	\$242

As a step in calculating the average room rates listed above, assumptions regarding the achievable Comprehensive Meeting Package (CMP) rates were made based upon what is being achieved in hotel/conference centers in other market locales. CMP rates are all-inclusive, and cover the guest room rate, food and beverage charges, and meeting room charges. Consideration of all-inclusive CMP rates is important for any conference center property due to the nature of the business that includes a large share of package deals. As a point of reference, the precedent properties cited in this report have the following single-occupancy CMP rates (most CMP guests choose single-occupancy accommodations).

• Hayes Mansion, San Jose, CA	\$315
• Scottsdale Conference Resort, Scottsdale, AZ	\$346
• Evergreen Conference Resort, Stone Mountain, GA	\$266
• Hamilton Park, Florham Park, NJ	\$335
• Lansdowne Conference Center, Leesberg, VA	\$335

Generally speaking, hotel/conference centers allocate their CMP rates as follows:

• Rooms Department:	±60 percent
• Food and Beverage:	±30 percent
• Conference Department:	±10 percent

With respect to the Charleston East hotel/conference center prototype, it is reasonable to assume that the property would achieve a CMP rate slightly under that of Hayes Mansion because the prototype would be a larger property and would lack the historic appeal of Hayes Mansion. With more rooms to market, it may need to discount to a greater degree than Hayes Mansion. Accordingly, the property's CMP rate in 2000 dollars is assumed to be \$265. At three percent per year, this would inflate to approximately \$290 by the beginning of 2003; at stabilization in 2005, the CMP rate would be \$310. The CMP rate breakdown in 2003 would be as follows:

• Rooms Department:	\$178
• Food and Beverage:	\$87
• <u>Conference Department:</u>	<u>\$25</u>
Total	\$290

DEVELOPMENT COST SUMMARY

Order of magnitude construction cost estimates for the hotel/conference center prototype have been based on the development program as summarized below:

Land Area:	12.0 acres
Number of Guest Rooms:	300
Building Square Footage:	265,000 square feet, including 35,000 square feet of conference space.
Parking Spaces:	450 surface spaces (1.5 spaces per room)
Amenities:	Swimming pool/spa, fitness center, tennis courts, business center, restaurants, and a cocktail lounge.

It is anticipated that this development program will cost approximately \$60,000,000 to build at Charleston East, excluding land costs, but including all other reasonably anticipated costs (construction costs, soft costs, developer overhead, furniture, fixtures, and equipment, start-up marketing costs, etc.). This is the equivalent of about \$200,000 per room including costs for the conference center portion of the development and \$175,000 per room excluding the costs for the conference center portion of the development. Normal planning fees would be included in these cost estimates, but no mitigation fees or off-site fees beyond those in the City of Mountain View's *Public Works Development and Subdivision Fees* list effective August 8, 1999, would be included in this cost estimate. Inclusion of other fees or any other additional costs could result in materially higher development costs that could negatively impact the financial performance of the project. The estimated development cost of approximately \$60,000,000 is in 1999 dollars; costs would be expected to inflate at 3 to 5 percent per year until the time of construction.

REVENUE PROJECTIONS

Income

The income projection for the project is based on the room rate and occupancy assumptions discussed earlier in this section. Revenues other than for rooms were estimated based on expected industry ratios per room or as a percentage of rooms revenues. In addition to rooms revenues, revenues were estimated for the following departments: Food and Beverage, Conference Services, Transportation, Telephone, and Other Operated Departments.

Expenses

Departmental expenses are attributed to the same departments listed above based upon standard industry ratios. Some expenses, according to the Uniform System of Accounts for Hotels, are undistributed and they include administrative and general, management fees, marketing, property operations and maintenance, and energy. Fixed expenses are separate from operating expenses and include real estate and property taxes, insurance on building and contents, and reserves for replacement.

In addition to the expenses listed above, estimated ground rent payments were included as an expense line item before the calculation of net income. Ground rent was calculated as an 8.0 percent annual return on land value of \$35 per square foot, with cumulative increases tied to the Consumer Price Index once every five years. The estimated land value was derived through a residual value analysis and by reviewing data on recent comparable land sales in the market area. The residual analysis and market data indicated land values in the range of the low- to mid-\$30's per square foot.

This is similar to, but somewhat lower than, the land value that could be expected if the site were to be released for office development.

Net Operating Income

The estimate of net income before debt service is provided below for the first five years of operations of the prototype hotel/conference center. Total revenue figures include all sources of income and total expense figures include ground rent and all other expenses. Income and expenses are expressed beginning in 2003 dollars and inflated in subsequent years.

CHARLESTON EAST HOTEL/CONFERENCE CENTER PROTOTYPE INCOME ESTIMATES				
Year	Total Revenues (In Millions)*	Total Expenses (In Millions)*	Net Operating Income (NOI) Before Debt*	NOI as a % of Revenues
2003	\$26.8	\$22.7	\$4.1	15.3%
2004	\$32.0	\$25.8	\$6.2	19.3%
2005	\$38.2	\$29.1	\$9.1	23.8%
2006	\$39.3	\$29.9	\$9.4	24.0%
2007	\$40.5	\$30.7	\$9.8	24.1%
*Figures have been rounded and may therefore not total exactly. In 2003 dollars.				

FINANCING PARAMETERS

Based on industry standards, it is anticipated that the project's developer would contribute 30 percent of development costs, excluding land, as equity to the project. With the remainder of the project costs (as inflated to 2003 dollars) financed at 9.0 percent interest and amortized over 25 years, annual debt service would be \$4.95 million. This debt service is covered by projected income beginning in year two of operations, indicating that the developer would be required to contribute additional equity in the first year of operations in order to cover the shortfall from income.

CONCLUSIONS REGARDING FINANCIAL FEASIBILITY OF PROTOTYPE

Using the above development parameters and market inputs to construct a financial model, Sedway Group concludes that a project similar to the development prototype is highly unlikely to require any substantial financial assistance from the City in order to be feasible. Based on several conventional measures of financial return (returns on cost, internal rate of return, etc.), a project similar to the prototype appears quite feasible, generally speaking.

That said, it must be acknowledged that even the most financially promising projects can experience difficulty in obtaining financing when capital markets are tight. Furthermore, regardless of the state of the capital markets, it is always more difficult to finance a project subject to a ground lease than one in which the developer or user owns the land.

During the past several years, it is our opinion that such a hotel project similar to the prototype at this location would have been quickly financed given the right development team. In fact, the number of recently completed projects and projects currently under construction supports this very premise. Presently, however, capital for hotel projects is much more difficult to find, even for promising projects. This situation could again change by the time a developer of the Charleston East site were actually in the market for financing.

If capital market conditions have not improved, and the City wished to expedite the project, the City may wish to consider certain forms of project self-financing financial assistance, meaning that the source of funds for the assistance would be the project itself. In effect, these forms of assistance can reduce a lender's risk enough on the margin to improve the project's attractiveness for financing. Examples of such assistance include:

- public financing of certain public parts (e.g. parking) of the project using certificates of participation (COPS) secured by the ground lease on the property, or other mechanisms;
- temporarily rebating a portion of the substantial transient occupancy taxes (TOT) generated by the project (see estimated annual TOT below); or
- temporarily discounting or deferring ground rent.

This list is exemplary, not exhaustive. There are other alternative means of providing assistance if the City so desired. Sedway does not anticipate any situation where a project of this sort at this site would require substantial subsidy by the City, except out of revenues generated by the project itself.

In sum, the basic project economics look very positive, and assuming a strong development team, a failure to secure financing for such a project at the Charleston East site would probably have more to do with general capital market conditions than the project itself.

CONTRIBUTION OF TRANSIENT OCCUPANCY TAX REVENUES

In addition to revenues from ground lease payments and property taxes, a hotel development at Charleston East would generate transient occupancy tax revenues for the City. The prospect of transient occupancy tax revenues is often a significant driving force in the desire of a city to support the approval of new hotel development projects. In Mountain View, the transient occupancy tax is 10 percent added to the room rate that is paid by the hotel guest. Based upon the financial projections presented earlier, transient occupancy taxes for the first five years of operations are presented below.

Year	Prototype Projected Transient Occupancy Tax
2003	\$1.27 million
2004	\$1.57 million
2005	\$1.97 million
2006	\$2.03 million
2007	\$2.09 million

In the fiscal year 1998/99, transient occupancy tax collections for the entire City of Mountain View were approximately \$2.6 million. In this context, development of the prototype hotel would result in a substantial increase in transient occupancy tax revenues for the City.

VIII. COMPATIBLE USES FOR RESIDUAL LAND

Sedway Group performed a broad analysis of potential cultural and educational uses that would be compatible with hotel and conference center use of the Charleston East site. As indicated in earlier sections of this report, 10 to 14 acres of the 18.7-acre site would likely be required for a hotel/conference center concept of the quality desired by the City; a residual area of 4.7 to 8.7 acres of land would be available for other uses. It was assumed that any remaining site area would be used for cultural or educational use, given that the entire site is currently earmarked for such uses. Hotel/conference center operators also stated that support retail, entertainment retail, or a second hotel of lower quality may also be an appropriate use if allowed on the residual area. Hotel/conference center operators felt strongly that a fire station, which the City has considered as a potential use of a portion of the site, would not be compatible with hotel/conference center development. Operators perceived that sirens and the visual presence of emergency vehicles in the area would significantly detract from the upscale environment a high-quality facility would require.

METHODOLOGY AND RELEVANT DEFINITIONS

The methodology for this task was to interview a sample of potential user representatives and determine their space needs, reactions to locating adjacent to a hotel/conference center, and relative ability to pay for new facilities development. Addendum A includes a list of all parties who were contacted for interviews; highlights from the most relevant interviews are discussed in this section.

For the purposes of this study, Aeducational® use is defined as a school, which includes adult education, specialized education (such as a culinary or business school), private school education for children, etc. AAcultural® use is defined as a museum, gallery, performing arts space, library, archive, interactive exhibit, or similar use. Of course, many potential cultural uses could also have educational components without being considered a school.

EDUCATIONAL FACILITY ALTERNATIVE

Educational Facility Background

Educational facilities in the Mountain View area, including those targeting Kindergarten through twelfth grade as well as those targeting adults, report strong and increasing enrollment figures. As a result, many facilities are looking for new or larger sites to accommodate recent and anticipated growth. Further, some public school district sites that have been historically leased to institutions that are not part of their district have been reclaimed by districts in order to accommodate growth, thereby displacing existing private educational uses.

Educational Facility Interview Findings

Adult Educational Institutions. Representatives of adult education institutions with a presence in the Mountain View Area, including UC Santa Cruz Extension and the Foothill-De Anza Community College District, expressed strong interest in finding new space in the Mountain View Area. UC Santa Cruz Extension and the Foothill-De Anza Community College District are already discussing potential facilities development with NASA/Ames, but would be interested in the Charleston East site as an alternative to engaging in complicated agreements with the federal government. Both UC Santa Cruz Extension and Foothill-De Anza Community College District would be interested in a site of 6.0 or more acres (for a facility of 50,000± square feet with surface parking), and each have significant capital resources and established intentions to undertake such development. For example, voters residing in the area served by Foothill-De Anza Community College District recently approved a \$250 million bond measure for construction and renovation of facilities. UC Santa Cruz Extension and Foothill-De Anza have also discussed sharing some facilities on a new combined campus; such a shared facility could require the entire site area of Charleston East.

Representatives of the University of Phoenix, a private, for-profit institution providing professional degree programs for working adults also cited a need for additional space in the Mountain View area. However, the University of Phoenix typically only rents space and does not develop its own facilities. This is the case with many, but not all, private adult educational institutions similar to the University of Phoenix.

In terms of sharing the site, an adult educational facility (including classrooms, computer labs, etc.) would be highly compatible with a hotel/conference center. Both hotel/conference center operators and representatives of educational institutions stated significant potential for cross-utilization of conference space and classrooms between the two uses. However, there are relatively few institutions with the resources readily available to undertake new facility development.

Kindergarten Through Twelfth Grade Private Schools. Sedway Group interviewed school facility planners, architects, and other school representatives and found that the Charleston East site may be suitable for private elementary school use (Kindergarten through sixth grade). The residual site area of only 4.7 to 8.7 acres would not be considered large enough for seventh through twelfth grade uses, which typically require site sizes closer to the entire area of Charleston East. A typical private elementary school would likely desire a minimum of 6.0 acres of the site for a facility capable of accommodating 400 to 600 students. However, many private elementary schools are larger or smaller. Further, while the site is not close to residential areas, it is close to a large concentration of jobs and would therefore be convenient for many parents to drop-off/pick-up their children before and after work.

While a number of schools in the Mountain View area may be currently looking for sites similar to the residual area of Charleston East, few actually have the financial capacity to develop a new facility. This is demonstrated by a recent bidding process for a school site in Palo Alto in which many schools initially expressed interest, but only two (the Challenger School and the International School) actually submitted bids. For new facilities development, private schools must typically garner the support of parents and community members in order to undertake lengthy fund-raising drives. Ready capital reserves or funding programs are typically not already in place to fund new private school development.

One private school interviewed, the Early Learning Institute, was identified as having both an interest in the site and capital reserves available for new development. The Early Learning Institute

currently operates its program on a temporary site in Palo Alto, but also rents and has developed its own facilities in San Jose and Pleasanton. The Early Learning Institute expressed interest in 2 to 3 acres of Charleston East for a facility accommodating 150 daycare children and 200 elementary school children. The school would also want to regularly use public open space in the North Bayshore area to accommodate the recreational needs of its students. Many parents of the school's students currently work in the North Bayshore area, which is a strong influence on the school's interest in the site.

In terms of compatibility, sensitive site planning for an elementary school would be required in order to minimize potential conflicts with an adjacent hotel/conference center. Traffic circulation, noise and bells from playgrounds, security issues associated with the transient nature of hotel guests, and a variety of other factors would need to be addressed. One potential concern is the use of hazardous materials by nearby businesses (Mountain View prohibits childcare/school facilities within 1,000 feet of industrially zoned properties for this reason). Both hotel/conference center operators and primary school representatives had some reservations about the compatibility of the two uses, but believed that sensitive site planning could resolve many of those issues.

CULTURAL FACILITY ALTERNATIVE

Cultural Facility Background

In 1997, the Arts Council of Santa Clara County and the City of San Jose Office of Cultural Affairs released their *20/21 Regional Cultural Plan for the New Millennium*, a strategic planning study of arts and cultural organizations in the Silicon Valley.¹⁰ That study is the most comprehensive assessment of cultural facility needs within Santa Clara County, which includes Mountain View. Key findings from the study that are particularly relevant to potential cultural facility development in Mountain View include:

- \$ New cultural facilities programming should focus on technology when appropriate; this theme will provide opportunities for linkage with the unique and innovative technology businesses located within the area.
- \$ Santa Clara County has a relatively young population, implying that family- and child-oriented cultural activities may garner the greatest local participation and support.
- \$ A 1994 study prepared by the *Chronicle of Philanthropy*, a national bi-weekly newspaper widely read by staff and members of non-profit and philanthropic organizations, showed that the San Jose Metropolitan area's income rank is third in the nation, but its rank in terms of philanthropic giving is thirty-ninth. The *20/21 Regional Cultural Plan* concludes that this is an indication that additional resources could be tapped to support new facilities and programs.

¹⁰Silicon Valley is defined as encompassing all of Santa Clara County and portions of southern San Mateo County and southern Alameda County. However, because the study was generated by organizations based in Santa Clara County, that county is the primary focus of the findings.

- \$ There is Aleakage® of attendance from residents of Santa Clara County to venues outside of the county. This occurs because too few appropriate cultural opportunities exist within the county to satisfy the needs of residents. San Francisco County, with a significant concentration of cultural facilities, absorbs at least part of the Aleakage® of Santa Clara County resident attendance at cultural events and facilities.
- \$ The overall frequency of attending cultural facilities and events is influenced by the proximity of residents' homes to the hosting venues. The frequency with which residents attend cultural events is reduced in Santa Clara County because residents must often travel significant distances within the county or to other counties (e.g, San Francisco) in order to patronize cultural facilities and events that interest them.

Overall, the *20/21 Regional Cultural Plan* concludes that there are significant needs for a more extensive network of cultural facilities within Santa Clara County and the larger Silicon Valley. However, few immediately available sources of funding for such facilities and programs are identified. New facilities and program development are therefore likely to require extensive grassroots support, local government support, and fund-raising campaigns.

Cultural Facility Interview Findings

Sedway Group interviewed representatives of the Silicon Valley Arts Council, San Jose Office of Cultural Affairs, cultural facility planners and architects, and cultural organizations to gauge their interest in and opinion of the site. The estimated residual area of 4.7 to 8.7 acres is a suitable size for a cultural facility, and could support a facility of 60,000± square feet and associated surface parking, with maximum annual attendance in the range of 100,000 to 250,000 people. In most cases, any single cultural user would not require the entire site area of 18.7 acres, and many would not even require a site as small as 4.7 acres. Therefore, it may be necessary for more than one organization to occupy the residual site area in order to fully utilize the land. Actual attendance and site requirements of a cultural facility could vary widely, depending upon the actual facility concept, admission pricing, and other factors.

A potential cultural use of the site could be highly compatible with a hotel/conference center use on adjacent land, and opportunities for cross-utilization of facilities may exist. Further, a cultural use could enhance the publicity surrounding a hotel/conference center use and further the site's potential reputation as a landmark property in the City of Mountain View. The most significant drawback to a cultural use would be the likely need for land in-kind from the City and other potential financial contributions and support. The Silicon Valley's primary concentration of such existing facilities is in Palo Alto and San Jose, and both cities have invested considerable resources in developing their cultural infrastructure. Palo Alto is currently undertaking a joint study with Stanford University to explore the feasibility of developing one or two new performing arts theaters of ±2,000 seats. This theater would be intended, in part, to serve as a larger base for TheatreWorks. TheaterWorks is a dance company which is anticipated to outgrow the 620-seat Mountain View Performing Arts Center, where it currently holds many of its performances, within five to ten years.

Any cultural facility developed on Charleston East would probably engage in a lengthy capital campaign before being able to break ground on the site. No cultural organizations were identified by our interview sources that have made significant progress towards a capital funding program and could be quickly integrated into a development program at Charleston East. The Community School of Music and Arts, which already has agreements with Mountain View to develop on another City-owned site, was consistently recognized during the interview process as one of the only local

organizations that has recently been looking for a site and has the capacity to undertake new development. A request for proposals (RFP) process may be more effective in widely publicizing the site and generating responses from the institutions most capable of undertaking new facilities development.

IX. RECOMMENDATIONS

MAKE DECISIONS REGARDING PRECISE PLAN AMENDMENTS

The findings suggest that a 250,000- to 285,000-square-foot hotel/conference center is an appropriate use for 10 to 14 acres of the Charleston East Site from a market standpoint. On the remaining 4.7 to 8.7 acres, a variety of cultural and educational uses would be appropriate. A cultural or educational facility would probably be $\pm 60,000$ square feet, depending on the actual use and site area available. Before proceeding with any further steps, it must be decided if the North Bayshore Precise Plan should be amended to allow such a development program. This $\pm 345,000$ -square-foot program represents an increase in the allowable development square footage on the site, which is currently 220,000 square feet.

ESTABLISH PRIORITY CRITERIA FOR CULTURAL/EDUCATIONAL USE

Because the cultural/educational category presents such a broad spectrum of potential uses, the City should decide if any particular types of cultural/educational uses within the category are to be targeted or excluded.

ISSUE REQUEST FOR QUALIFICATIONS TO POTENTIAL DEVELOPERS/USERS

Upon establishing minimum criteria for potential users, the City should publicly issue a request for qualifications (RFQ) to potential Developers/users. Potential users and developers with appropriate experience, financial capacity, and the willingness to work within the guidelines of the revised North Bayshore Precise Plan would be encouraged to respond.

EVALUATE QUALIFICATIONS OF RESPONDENTS

Respondents to the RFQ should be evaluated based upon a pre-determined set of criteria.

INVITE USERS/DEVELOPERS TO RESPOND TO A REQUEST FOR PROPOSALS

The most qualified respondents to the RFQ should be invited to submit a proposal to develop the site, including how the business terms they can offer meet or exceed the City's minimum business terms as set forth in the RFP. The City may encourage a team response from a hotel/conference center developer in association with a cultural/educational user, or may allow hotel/conference center developers and cultural/educational users to respond individually. Ultimate selection of a joint team would allow for a more cohesive site plan and possible economies of scale. However, a team approach could result in one member of the team being delayed by the other due to unequal abilities to raise funds, differences in the length of time that key decisions can be made within each organization, and potential issues or conflicts that arise between the two organizations.

EVALUATE AND SELECT USER/DEVELOPER/TEAM FOR NEGOTIATIONS

Ultimately, the user or team of users with the strongest proposal should be invited to negotiate with the City for use of the site. The City may also reserve the right to decline all proposals if none are deemed acceptable. Criteria for selection should balance consideration of the appropriateness of the development concept, the ability of the team to follow through with development, and the strength of the financial terms offered to the City. Depending on the condition of the real estate and capital markets and results of the negotiations, the City may wish to consider offering some form of financial or financing assistance (e.g., a discount on the early years of ground rent or bond financing for a portion of the project) in order to facilitate timely development.

ASSUMPTIONS AND GENERAL LIMITING CONDITIONS

Sedway Group and Scott Hospitality Consultants have made extensive efforts to confirm the accuracy and timeliness of the information contained in this study. Such information was compiled from a variety of sources, including interviews with government officials, review of City and County documents, and other third parties deemed to be reliable. Although Sedway Group and Scott Hospitality Consultants believe all information in this study is correct, it does not warrant the accuracy of such information and assumes no responsibility for inaccuracies in the information by third parties. We have no responsibility to update this report for events and circumstances occurring after the date of this report. Further, no guarantee is made as to the possible effect on development of present or future federal, state or local legislation, including any regarding environmental or ecological matters.

The accompanying projections and analyses are based on estimates and assumptions developed in connection with the study. In turn, these assumptions, and their relation to the projections, were developed using currently available economic data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize, and unanticipated events and circumstances may occur. Therefore, actual results achieved during the projection period will likely vary from the projections, and some of the variations may be material to the conclusions of the analysis.

Contractual obligations do not include access to or ownership transfer of any electronic data processing files, programs or models completed directly for or as by-products of this research effort, unless explicitly so agreed as part of the contract.

This report may not be used for any purpose other than that for which it is prepared. Neither all nor any part of the contents of this study shall be disseminated to the public through publication advertising media, public relations, news media, sales media, or any other public means of communication without prior written consent and approval of Sedway Group and Scott Hospitality Consultants.

ADDENDUM A:
CULTURAL/EDUCATIONAL INTERVIEWS

ADDENDUM A
CULTURAL AND EDUCATIONAL INTERVIEW CONTACTS

Contact Type	Organization/Affiliation	Contact Name/Position	Attempted ¹	Completed ¹	Key Observations
<u>Adult Education</u>					
	Foothill-De Anza Community College	Martha Kanter President		X	Although have an understanding with NASA-Ames to possibly develop facilities there, no commitments have been made. Charleston East is an appealing alternative to negotiating with the federal government for space at NASA-Ames.
	Foothill-De Anza Community College	Mike Brandy Vice-President		X	Would be interested in Charleston East, possibly 10 acres. Has discussed the potential of co-locating facilities with UC Santa Cruz Extension.
	Golden Gate University	Ryan Van Ommeren Director of Facilities	X		Not applicable.
	Heald Institute of Technology Facilities	Jerry Reddick	X		Not applicable.
	Silicon Valley Manufacturing Group Education and Workforce Preparedness	Samada Perez Acting Director		X	Unaware of any programs actively seeking space in new facilities.
	University of Phoenix	Tammy Facilities		X	Looking for space, but have never developed their own. Only interested in renting existing space.
	UC Santa Cruz Extension Facilities	Connie Martinez	X		Unable to speak directly to Connie Martinez; other sources inside and outside UC Santa Cruz reported that UC Santa Cruz Extension is outgrowing its Cupertino facility and is currently looking for space or a development site in the area.
<u>Primary Education</u>					
	Early Learning Institute	Chuck Bernstein		X	Currently have a temporary site in Palo Alto. Interested in 2 to 3 acres of Charleston East for 300 elementary and childcare students. Capital reserves available and experience in developing facilities in the Bay Area.
	International School	David Fish Facilities Project Manager		X	Many private schools looking for space; few with financial capacity in place for new development.
	Lionkas Beaumont Design Group, Inc.	Don Mariano		X	Gave general development parameters for schools. Unaware of any local schools actively seeking space.
	Santa Clara County Office of Education Facilities	Donna Robinson, Sue Little		X	Unaware of schools actively seeking space.
	Palo Alto Unified School District Surplus Properties	Jeannie		X	Unaware of schools actively seeking space.
	Mountain View-Los Altos USD Business Services	Judy Lovell		X	Unaware of schools actively seeking space.
	Quattrocchi Kwok Architects	Mark Quattrocchi Architect		X	Gave general development parameters for schools. Unaware of any local schools actively seeking space.
	School Facilities Consultants	Matt Pettler Planner		X	Gave general development parameters for schools. Unaware of any local schools actively seeking space.

Continued

**ADDENDUM A
CULTURAL AND EDUCATIONAL INTERVIEW CONTACTS**

Contact Type	Organization/Affiliation	Contact Name/Position	Attempted ¹	Completed ¹	Key Observations
Continued					
<u>Cultural</u>					
	Arts Council of Silicon Valley	Andrea Temkin Trustee		X	Also Executive Director of Community School of Music and Arts. Unaware of any cultural organizations looking for space with capital funding capacity.
	Arts Council of Silicon Valley	Bruce Davis Executive Director		X	Cultural uses tend to be city-oriented; concentrations have developed locally in Palo Alto and San Jose, where city funding has historically supported these uses. No potential organizations identified for Charleston East.
	KMVT Mountain View Public Access Television	Doug Broomfield		X	Would need only10,000 square feet of space. Primarily interested in being located in a larger facility with other cultural/educational users. No facilities capital program currently in place.
	Mountain View Center for the Performing Arts	Ellen Miner Executive Director		X	Theater gets an operating subsidy from City for 45 percent of its annual budget. Despite high utilization of the facility, programs cannot support costs without subsidy. Existing home company, TheatreWorks will outgrow the facility in five to ten years.
	City of Mountain View Department of Community Services	Glenn Lyles		X	The feasibility of an "interpretive center" is being explored in North Bayshore, but is likely to be located closer to the Bay.
	Lord Cultural Resources Planning and Management	Kathleen Brown		X	Gave general development/attendance parameters for cultural facilities. Unaware of any local cultural facilities actively seeking space.
	City of Palo Alto Community Services, Arts and Culture	Leon Kaplan Director		X	Knows of no users looking for space. Palo Alto funds arts programs from its general fund.
	San Jose Office of Cultural Affairs	Lynn Rogers Planning/Development Officer		X	Unaware of schools actively seeking space.
	Hardy Holzman Pfeiffer Associates	Steven Johnson Architect		X	Gave general development/attendance parameters for cultural facilities. Unaware of any local cultural facilities actively seeking space.
	Silicon Valley Art Museum (Proposed)	William Brickner Principal Promoter		X	Concept is for an art museum focused on technology and visual arts. Interested in the site, but would need City support and participation in the project. Would want 3 to 5 acres for a 35,000- to 45,000-square-foot facility. Capital fundraising program to start soon, with goal of having a permanent facility under construction within 3 to 4 years.

Continued

Notes:

(1) At least three calls were attempted with each listed contact. Some contacts were unable to be reached after three calls. It may be useful to again attempt interviews with these parties at a later time.

Sources: Interviews and Sedway Group.

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26-Jan-01